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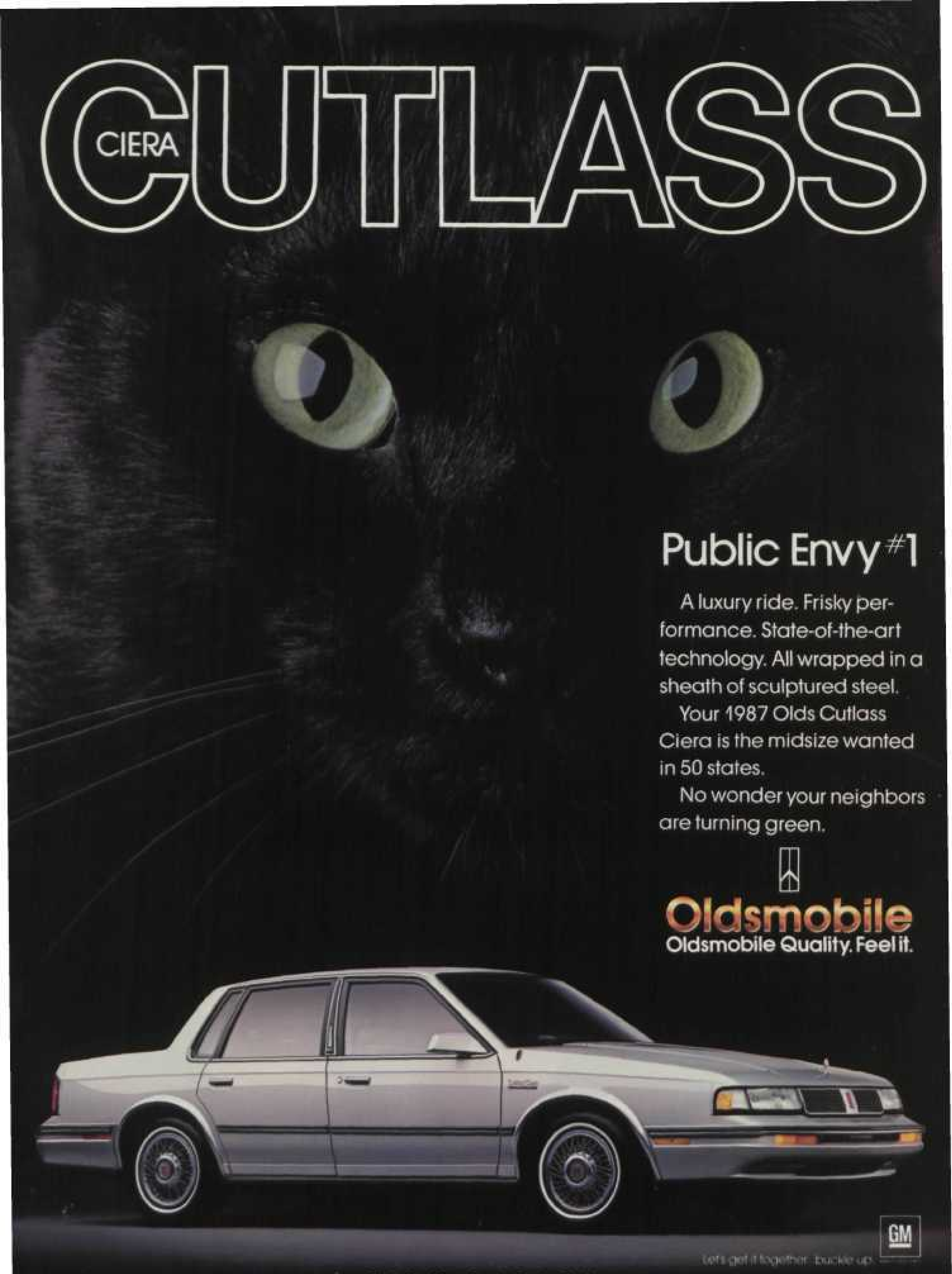
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Nation's Business®

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MANAGING YOUR BUSINESS

The falling dollar is helping American high technology become more affordable for Europeans, which may improve the trade picture and, ultimately, the economy. That and other predictions about the economy begin on page 16.

PHOTO: JEFF ZARUBA—FOLIO INC.

DEPARTMENTS

Herman J. Russell, founder and president of H.J. Russell & Company, Atlanta, knows what it's like to build a company from practically nothing. (Lessons Of Leadership, Page 58)

PHOTO: T. MICHAEL KEZA

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COMMENTARY

How To Become Your Broker's Pet

By Andrew Lanyi

If your broker likes you, he or she can put money in your pocket. Your law or accounting firm will take care of legal or accounting problems more or less in the order in which different clients' problems develop. On the other hand, your broker is likely to play favorites.

Let's assume he has a brilliant idea about buying a stock. It is selling for $10 per share, and he thinks it will go to $30. The first client to whom the broker recommends the stock will pay 10, if he buys it. The later the broker calls you, the more you will pay—especially if you are investing in a company that has relatively few shares in public hands.

Other customers at the top of the broker's list may also buy the stock at 10. But the 25th may pay 11. Some of the customers called later will pay 15, 20 or 25.

When the time comes to sell—naturally, all this is oversimplification—the broker will call in the same pecking order. The favored customer, who bought at 10, may sell at 30. The one who bought at 15 may sell at 25; the one who bought at 20 may get out at 20; and the least favored customer, who bought at 25, may take a licking at 15.

There are many situations in which it pays to be a well-liked customer.

For one, shares of hot new issues allocated to a broker are offered to the most deserving customers.

How do you become a favored customer? Make sure you find a trustworthy broker—and then show him that you trust him.

If you are lucky enough to find one who evidently puts your advantage ahead of his (for instance, he talks you out of trades that would make him commissions but that, in his opinion, are not to your advantage), and if he takes the time to explain his philosophy, strategy and tactics, rather than just hurrying you into trade after trade, tell him: "Thank you. Thank you!"

It is probably easier to explain how not to get on his favored list. One way: Tell him, whenever he has a suggestion, that you want to take your time and do your own investigating.

But why do that? Why keep an expensive dog and do the barking yourself? Find someone whose resources are better and whose experience is greater. Follow his suggestions. If you find him to be inept, lazy or dishonest, leave him in a hurry. But as long as he does his homework early and well, trust in his judgment.

"It helps to create a friendly, warm relationship. The worst customer always complains."


PHOTO: DAN MILLER

There is no sense in going to the best lawyer you can find and, when he suggests that you settle out of court, telling him you want to seek other counsel on whether you should litigate.

And there is no sense in finding the best broker you can—and telling him every time he makes a recommendation that you want to discuss it with an accountant, a sibling or a spouse. There is nothing a broker resents more.

If you have a joint account, you should ask your spouse to give you total power of decision—or it should work the other way, with your spouse having total proxy and talking to the broker. Using each other as excuses for procrastinating puts you way down on the broker's call list.

Above all: Don't be a Monday morning quarterback. If a situation goes sour, don't keep rubbing it in by saying that you knew right away and told him right away that this one was not going to work out. Thank him for all the good decisions he helped you make and commiserate on the bad ones.

It helps to create a friendly, warm relationship. The worst customer always complains, never says "Thank you." If, in his portfolio of 10 companies' stocks, one has quadrupled, three have tripled, five have doubled, and one has gone down 30 percent, this client will call and complain about the one that is down.

Who needs him? This guy will get the last call, and sooner or later he will become a loser.

I would be less than honest if I failed to point out that how nice you are to your broker is only one of his two major considerations in deciding how much priority to give your account. The other—admittedly, more often than not the main consideration—is how big your account is. More precisely, how much you spend on commissions.

A broker is in business—so his big account generally gets a call before a medium-sized or small one. An active account gets a call before a less active or inactive one. But you can bet your bottom dollar that, among the less active accounts, the client who gets the most attention is the client who is the most pleasant to deal with.

Studies have been conducted of why certain people do business with certain brokers. The overwhelming response is: "Because I like him."

If you surveyed successful brokers and asked why they tried harder to make a profit for one customer than another, the answer would be pretty much the same: "Because I like him."

You can do a lot of studying about investment techniques, a lot of research into specific investments. My suggestion is: Concentrate your efforts on finding the best broker possible—and then become the broker's pet. NB

Guest columnist Andrew Lanyi is a managing director of Ladenburg, Thalmann & Company, an investment banking and brokerage firm in New York, and head of its Lanyi division.

COMMENTARY

Letters

Curbing Budget Excesses

The mere idea of raising taxes in order to reduce the federal deficit ["Where I Stand," November], is idiotic. What ever happened to the notion that a penny saved is a penny earned? For too many years the federal government has chosen to propagate a wasteful, inefficient blubbering child that only speaks two words: *higher taxes*.

Now the time has come for this blubbering imp to be weaned from the mother's milk of taxation.

The Grace Commission showed numerous examples in which prices paid for common products were thousands of times higher than true market value. And well-paid legislators in Washington spend millions extra on travel and accommodations simply because they choose to travel first class. The list of such frivolous expenditures could go on without end.

For once I would like to see those who foolishly overspend take the consequences.

Stephen G. Crochet
San Angelo, Tex.

It should be obvious to all but morons that the federal government should reduce spending rather than raise taxes. But you didn't mention that the Grace Commission's recommendations, if 100 percent accepted, could balance the budget. Just that alone—think of it.

James Stewart
New York

Questioning A Question

With all due respect to the author's success in the field of persuasion techniques ["The Power Of Questions," November], his suggestion of using the phrase "Don't you think ..." to make the other fellow think he originated an idea is the world's biggest insult to anyone with an IQ of 75 or over. The phrase is hackneyed and outdated.

It's also in poor taste, don't you think?

Keith C. Smith
Indianapolis

Paying Fair

"Managing Your Company's Cash"[November] made several excellent points. However, I quarrel with the implication of the author's assertion that "most firms consider payment timely if the check is dated the day the bill is due." The statement implies that this is good enough, regardless of when the check is received by the supplier. Sometimes there is a fine line between good business practice and chiseling. The technique recommended is highly suspect, no matter how common.

Richard N. Maskell
East Dundee, Ill.

Remember When?

Nation's Business not only reaches a lot of readers, it goes back a lot of years. Next September, we will celebrate our 75th anniversary. You can help us celebrate.

In a variety of ways, our September, 1987, issue will tell the fascinating story of American private enterprise over the past three quarters of a century and illuminate where the nation's business is now and where it is headed.

Did your business start in 1912, as ours did? Did it start even earlier? Do you have stories and photos that illustrate what it has been like to meet the business challenges over the years? We'd like to hear from you.

Please write to: Managing Editor,
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Nation's Business

From The Editor

That big "87" on our cover signals our New Year's message to you, our readers—a comprehensive report on the business outlook for the coming year.

This annual project is just one of many ways through which we fulfill our commitment to provide useful, up-to-the-minute information to help you run your business.

Most of you own and/or manage small or medium-sized firms, and our editorial content serves your special needs. For example, last year we inaugurated the *Nation's Business*/Ernst & Whinney small business poll, in which entrepreneurs share appraisals of business conditions. We also provided the most comprehensive coverage of any publication on the 1986 White House Conference on Small Business.

Your response to this type of coverage tells us we are on target in meeting your information needs. Our circulation went past 867,000 last year, providing advertisers with a bonus on a guaranteed rate base of 850,000. There was a 20 percent increase in orders for reprints of the many articles that readers find particularly helpful. And, in a difficult year for the magazine industry, our advertising revenues rose nearly 8 percent.

These developments occurred in the first full year of our redesigned format, which was accompanied by major improvements in editorial content.

The cover story of the first redesigned issue told of the increasing number of married couples who are becoming business partners. It was written by Senior Editor Sharon Nelton, and we are proud to report that she has developed her subject into *In Love & In Business*, a book published by John Wiley & Sons that has received widespread attention—Nelton has made guest appearances on such national television shows as "Good Morning America" and "Donahue" and on local TV throughout the country.

Our graphics changes have been honored with awards from *Graphic Design: USA*, the leading publication of art directors and graphic designers, and the Art Directors Club of Metropolitan Washington.

In other activities, we launched programs to make the magazine available on newsstands in all parts of the country and to keep the advertising community informed of our progress in becoming an even more important business resource. A film presentation, "Shape Up With the New *Nation's Business*," has been shown to corporate and agency ad people in eight major markets.

Our service to readers takes forms other than the printed page. We teamed up with Dun & Bradstreet to offer 550 management seminars that drew enthusiastic participants in communities across the country.

It is also a pleasure to report that "Nation's Business Today," the daily television program affiliated with this magazine, enjoyed a banner year and has plans to make 1987 an even better one. "Nation's Business Today," the only live, Washington-based business news program, has completed its first year on ESPN, the nation's largest cable TV network, where it runs for two hours each weekday morning. Its advertising revenues increased 35 percent in 1986.

This year marks the introduction of another television venture—"Nation's Business Update," one-minute business reports that will be carried on ESPN three times each weekday between 4 and 7 p.m.

If 1986 was a big year for *Nation's Business* magazine, 1987 will be even more exciting. It is our 75th anniversary year, and we will be marking it in a big way. The theme of our anniversary issue in September will be "American Enterprise: Yesterday, Today and Tomorrow," and each 1987 issue will carry an anniversary feature. We will be looking at the enormous changes in the business world over the past 75 years and the further changes ahead. It is a journey you won't want to miss, and we look forward to being your guide.

Robert T. Gray

Robert T. Gray

The Nation's Business

Washington Roundup

PHOTO: TIM DILLON—USA TODAY PHOTO: UNIPHOTO

In the last Congress, Edward M. Kennedy was ranking minority member of the Senate Labor Committee, and Orrin G. Hatch (right) was chairman. Now the committee roles of these two men who have been nearly at opposite ends of the ideological spectrum have been reversed. It will be a different committee, indeed.

Labor Committee's Left Turn

The newly composed Senate Labor and Human Resources Committee, which will meet for the first time this month, will be much less conservative and business-oriented than the Labor Committee in the last Congress, according to organizations that evaluate congressional votes.

This key panel's shift toward liberalism appears to bode ill for the outcome of resistance to several measures that would require what business considers needless government interference.

Due to the Democratic takeover of Senate control November 4—the party lineup is now 55-45—Edward M. Kennedy (D-Mass.) will become chairman of the 16-member Labor Committee. Orrin G. Hatch (R-Utah) will become ranking minority member.

In the last Congress, controlled by the Republicans 53-47, the Hatch-Kennedy roles were reversed.

The switch is highly significant, because chairmen almost exclusively determine which issues their committees will address.

On selected votes cast in 1985, the last year for which complete ratings are available, Hatch and Kennedy were near opposite ends of the ideological spectrum, according to a composite rating of 13 widely differing organizations—some business, some union, some conservative, some liberal, some nonaligned. The rating was worked up by *National Journal* magazine .

Hatch's "conservative rating" is 73 on economic issues, 62 on social issues and 88 on foreign affairs issues. Kennedy's is 26, 0 and 0.

Similarly, Hatch's cumulative voting record is 90 percent "right" as judged by the U.S. Chamber of Commerce, while Kennedy's is 14 percent.

The AFL-CIO's Committee on Political Education rates Hatch at 10 percent favorable and Kennedy at 93 percent.

However, the liberal tilt of the Labor Committee involves many more senators than Kennedy and Hatch.

The average U.S. Chamber favorable rating of Republican members of the committee (excluding Hatch) is 79 percent for 1985.

In contrast, the average U.S. Chamber rating of the Democratic members (excluding Kennedy), most of whom will now be part of the committee's new majority in the upcoming Congress, is 33 percent.

And no Democrat's percentage of "right" votes is as high as the 50 percent ratings of the two Republicans viewed as the most liberal—Sens. Robert T. Stafford of Vermont and Lowell P. Weicker, Jr., of Connecticut.

The full Senate is likely to consider much of the legislation that clears the Labor Committee during 1987-88. New Majority Leader Robert C. Byrd (D-W. Va.), who will set the Senate's agenda, is a frequent supporter of union-backed measures.

Byrd's AFL-CIO rating is 71 percent, and his U.S. Chamber rating is 33 percent.

His *National Journal* conservative ratings on economic, social and foreign affairs issues in 1985 are 11, 22 and 56, respectively.

From top to bottom, business will probably find the new Senate less sympathetic than the last one. Of 13 new senators who defeated or replaced retiring incumbents, nine are at least as liberal as the senators they replaced, according to U.S. Chamber voting records and reports of the business federation's political affairs division.

Last year, six major initiatives of organized labor and congressional liberals, including Kennedy and Byrd, were successfully opposed by the business community and such congressional conservatives as Hatch. Business lobbyists expect this legislation to be introduced again this year:

- "Comparable worth." Under legislation in line with this concept, jobs in which women predominate would have to have the same pay scales as male-dominated tasks that are deemed "equal" by consultants.

A proposed study of federal pay, ignored by the Senate last year, could have led to implementing the concept in the federal work force and, ultimately, in the private sector.

- "Double-breasting." Last year, Senate negotiators rejected a proposal to effectively ban "double-breasting"—operation of union and nonunion companies by single owners—in the construc-

tion industry. If this proposal is enacted by the new Congress, a large number of nonunion construction workers would be subject to the same collective bargaining provisions as their unionized counterparts.

● Excess airline employees. The Senate rejected a House-passed bill that would have made it economically unattractive to lay off superfluous employees following a merger, acquisition or sale of assets in the airline industry.

● Occupational hazards. Congress did not have time to consider a bill with almost 140 House co-sponsors that would have created a new bureaucracy, similar to the Occupational Safety and Health Administration. This agency would be responsible for notifying, treating and counseling workers who were or could have been exposed to hazardous substances in the workplace.

● Parental leave. Congress also adjourned for the elections before considering a proposal to require employers to provide unpaid but job-protected leave to parents of newborn or newly adopted children and workers with children or elderly parents who are seriously ill.

● Plant closings. This proposal would have impeded layoffs at financially ailing firms by inserting affected labor unions into the process.

The measure would require such things as notifying affected employees and unions 90 days before layoffs, allowing unions to suggest alternatives to dismissals.

● Lie detectors. A proposal passed by the House but ignored by the Senate would have banned business' use of polygraph tests to deter or detect employee crime. NB

Small Business Report

New Niche For Accountants

Small firms typically use accountants as troubleshooters. Need to fill out tax forms? Have an inventory problem? Got a payroll question? Call the accountant.

When the business grows large enough, owners replace the part-time accountant with a full-time chief financial officer. But what about the business that needs more than a troubleshooter and cannot afford a CFO?

Accountant Steve Rader has the answer: a part-time controller. The concept is fairly simple. Rader & Company, of Houston and Dallas, assigns an accountant to work 20 or more hours a week with a single company. The accountant performs all duties of a financial officer, but at far less cost.

Making the idea work takes careful planning and skillful negotiations. "The commitment to have one accountant assigned to work exclusively with one client is not easy to schedule," says Rader. "Plus getting into the management of a company is something that CPAs traditionally have not done. You have to find a company that will treat you as a controller, not as part-time hired help."

Rader only assigns accountants who also have business management experience.

Steve Rader, managing partner of the Texas accounting firm, Rader & Company, offers a part-time controller service.

PHOTO: HERMAN KOKOJAN—BLACK STAR

In addition to small companies, Rader anticipates serving businesses with cyclical patterns—construction—and financially troubled companies—mostly oil-related—that can no longer afford a full-time controller.

"Most clients that have used this service are amazed at the cost savings and results," says Rader.

His advice to small businesses that need such a service is straightforward: "Go to your CPA and tell him what you need. That's how we got into it."

Cashing In On Buyouts

Tax reforms that took effect January 1 have not yet eliminated favorable treatment of transactions involving the sale of smaller businesses.

Sellers of closely held companies valued under $5 million are exempt from double taxation through Dec. 31, 1988, because their companies are not subject to being taxed as corporations until then. Companies valued between $5 million and $10 million are partially exempt until the same date.

"It takes the better part of nine months to sell a business properly," says Gary Roelke, senior vice president of Geneva Services, a Teaneck, N.J., company that specializes in arranging mergers and acquisitions. "Small business owners have a two-year window of opportunity in which to act, but they shouldn't wait till the last minute."

Piles of cash at big businesses and the pending increase in taxes on capital gains caused owners of small and midsize firms to sell out in record numbers late last year.

Buyouts of smaller companies were running 20 percent ahead of 1985's record level even before Congress passed the tax reform bill. High stock prices and low interest rates gave major companies, which account for two thirds of all such purchases, the cash and confidence to go after privately held firms.

But tax reform gave owners added incentives to sell. Under the new law, they lost favorable capital gains treatment on January 1 when the effective tax rate on long-term gains rose from 20 percent to 28 percent.

Japan Eyes U.S. Manufacturers

The Japanese, world champs at exporting, frequently have been criticized for erecting barriers to imports. Partly as a result, they are making a new effort to attract American products.

The government-funded Japan External Trade Organization is inviting U.S. manufacturers and exporters of health care products—many of the firms are small—to the second Made in U.S.A. Fair set for March in Osaka. JETRO maintains that the United States can take advantage of its lead in health care products to expand into Japan's rapidly growing market. More than 250 U.S. exhibitors are expected to participate. NB

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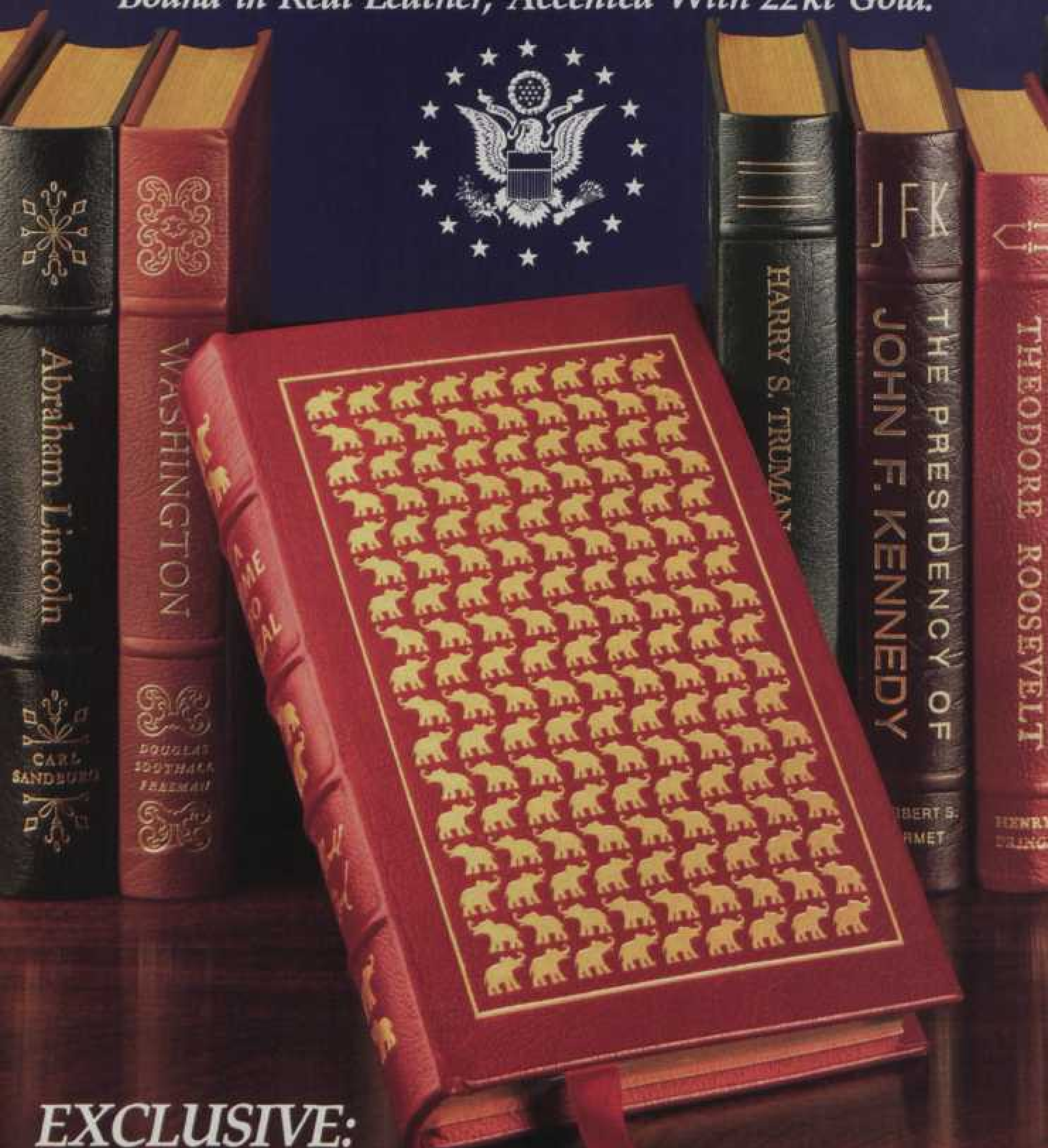

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COVER STORY

Business Outlook '87

By Roger Thompson and Joan C. Szabo

The recovery that began in November, 1982, will continue through 1987, setting a record for the longest peacetime expansion since World War II.

But it will be no period of roaring prosperity. A sluggish first half will be followed by a mild rebound, leaving the gross national product in the doldrums for the third straight year. The probable GNP growth figure: only 2.8 percent.

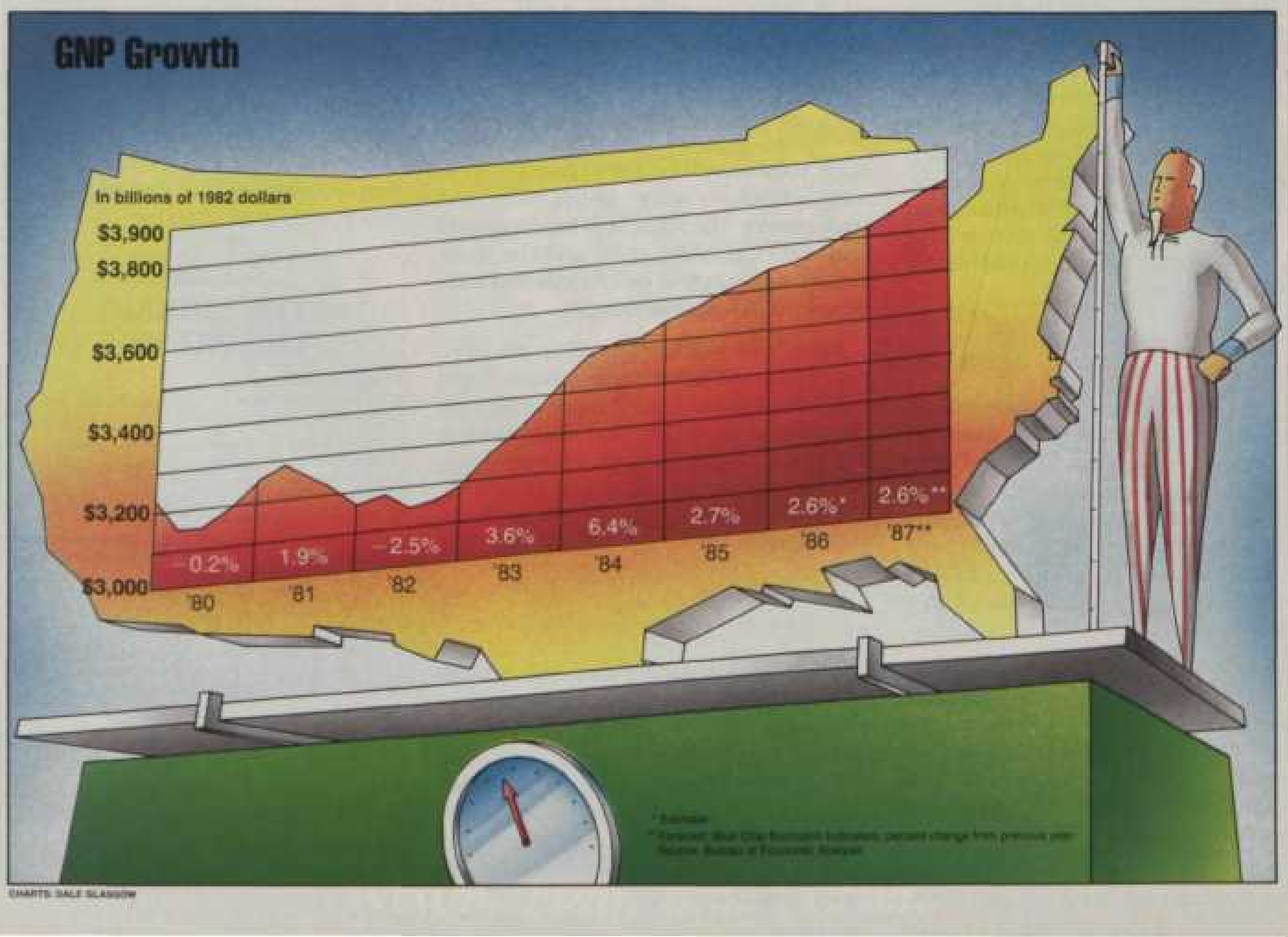
That is the consensus of more than two dozen economic forecasters surveyed by *Nation's Business*. There is some fear that first-half sluggishness will carry the nation into recession, but most consider that unlikely—"There is really no reason for a downturn in the economy," says Richard W. Rahn, chief U.S. Chamber of Commerce economist—and on balance, the year may turn out to be better than the GNP figure suggests.

Inflation will remain in check, the economists say, interest rates will drift slightly downward and then rebound to relatively low 1986 levels, and industrial production will increase at a respectable clip. Less encouraging is the forecast for unemployment: unchanged at around 7 percent.

The first half will be dominated by two major negatives, adjustment to tax reform and a slowdown in consumer spending. Improvement in the second half, economists say, will be led by a turnaround on exports that could add manufacturing jobs. Many economists view trade as the most important factor affecting economic growth in 1987. (For more on trade, see Page 30.)

"If the trade situation improves dramatically, the real growth rate in 1987 could be 3 percent or higher," says John O. Wilson, chief economist for the Bank of America.

Quarter by quarter growth figures in the *Nation's Business* survey reflect the anticipated upswing. Seven forecasters expect anemic growth of 2 per-



CHARTS: DALE GLASGOW

No boom, no bust . . . more muddle: If a sluggish economy avoids early recession, it should head for a friskier year-end finish.

cent or less during the first half of the year, while only six see a robust 3 percent or more. As for the second half, one forecaster sticks with the under 2 percent scenario, while 17 expect growth above 3 percent.

Getting to the second half without a recession could turn out to be a perilous journey. Consumers, who account for two thirds of GNP, are the key. Last year they pushed borrowing to a record high and saving to a record low. Now the question is: Has debt become so onerous that consumers will put the brakes on spending?

A few pessimists maintain that consumers will close their wallets and pay down debts early in the year, tipping the economy into recession. The consensus, as expressed by Rosanne Cahn, an economist for First Boston, is less severe. "Growth in spending will be less than in 1986, when it exceeded 4 percent for the year, but will continue at about a 3 percent pace"—closer to real growth in GNP, says Cahn.

Tax reform also will tend to slow the economy in the short run because it reduces incentives for consumers to borrow. The law eliminates deductibility of sales taxes and phases out deductibility of interest payments on all consumer debt except home mortgages.

In addition, business and construction spending are expected to decline early in the year because tax reform scaled back and repealed a number of tax credits and deductions.

Says Robert J. Eggert, who conducts a monthly survey of 51 forecasters for his Sedona, Ariz., newsletter, *Blue Chip Economic Indicators*: "The feeling among the group is that tax reform is going to hit hard in the first half, especially in the first quarter."

Anticipated improvement in demand for U.S. goods abroad will not be strong enough in the first half to prevent sluggish growth. But many forecasters expect a moderate boost to the economy in the second half. Their rea-

What The Experts Say About The 1987 Economy

	Percent Change in Real GNP By Quarter* I	II	III	IV	GNP Growth#	Inflation Rate#	Jobless Rate	Industrial Production#
Office of Management and Budget**	4.2%	4.2%	4.2%	4.2%	4.2%	3.7%	6.6%	na%
Rosanne Cahn, First Boston Corp.	2.3	3.5	3.1	4.0	3.2	2.7	6.6	3.8
Lawrence Chimerine, Chase Econometrics	2.1	1.9	2.4	2.8	2.4	4.3	7.0	2.1
U.S. Chamber of Commerce	2.6	2.9	3.8	4.0	3.3	2.2	6.8	5.0
Robert Dederick, Northern Trust Co.	2.5	3.0	3.5	3.0	3.0	3.9	6.8	3.2
Wharton Econometrics	3.2	3.7	3.2	2.6	3.2	4.3	6.6	3.3
Robert J. Genetski, Harris Bank	3.4	3.5	3.6	4.1	3.7	1.8	6.8	4.8
Lyle Gramley, Mortgage Bankers Assn.	2.0	2.0	3.0	3.0	2.5	4.0	6.8	3.1
David D. Hale, Kemper Financial Services	0.5	1.6	3.8	4.0	2.4	2.7	6.8	3.0
Blue Chip Economic Indicators	2.2	2.7	3.2	3.4	2.9	3.9	6.8	0.9
Jerry Jordan, First Interstate Bank	3.0	3.4	3.8	4.0	3.6	4.4	6.4	4.8
Ben E. Laden, T. Rowe Price	0.8	2.9	3.5	3.9	2.8	4.4	6.9	4.9
Mickey D. Levy, Fidelity Bank	1.2	2.5	3.1	3.8	2.6	3.8	7.3	1.0
National Assn. of Manufacturers	0.8	0.4	2.1	2.3	1.4	3.8	7.0	0.4
Laurence H. Meyer, L. H. Meyer Associates	1.8	1.6	2.6	2.6	2.1	3.8	7.3	na
Harold Nathan, Wells Fargo Bank	2.0	1.3	2.7	3.4	2.3	4.2	7.1	na
John D. Paulus, Morgan Stanley	0.5	1.1	2.6	3.3	1.9	3.3	7.1	na
National Assn. of Realtors	1.7	1.4	1.5	1.4	1.5	3.2	7.3	1.2
Date Resources	2.2	2.7	3.6	3.6	3.0	3.9	6.8	3.2
Alan Reynolds, Polyconomics	5.0	4.0	4.4	3.7	4.3	2.2	6.6	4.5
Benard Schoenfeld, Irving Trust Co.	3.5	4.1	3.8	2.7	3.5	4.1	6.6	2.6
Allen Sinai, Shearson Lehman Brothers	2.2	3.2	3.7	3.7	3.2	3.8	6.7	5.6
James R. Solloway, Argus Research Corp.	2.8	3.5	4.5	4.0	3.7	3.5	6.7	4.5
John O. Wilson, Bank of America	2.2	2.7	3.6	3.6	2.5	4.2	6.9	2.7
Edward Yardeni, Prudential-Bache	-2.0	-1.0	2.0	2.7	0.4	1.9	7.5	1.0
Average	**2.1**	**2.5**	**3.3**	**3.4**	**2.8**	**3.5**	**6.9**	**3.1**

*Inflation adjusted, annual rate
#Change from the fourth quarter of 1986 to the fourth quarter of 1987
**From mid-session review of the 1987 budget, August, 1986

TIPTOE SOCKS, INC.

Mr. James E. Foote
Footware Junction
Hawthorne, NY 10532

February 1, 1986

Dear Mr. Foote,

Business is booming! Half the people in town must be walking around on TipToe socks.

We're doing so well, in fact, that I've got to start stocking up. My storeroom is just about sockless.

And since I've heard your paisley will be a shoe-in again this spring, I'd like to order some more.

Here's what I need:

Men's	Lg.	250 doz.	paisleys
	Med.	159 doz.	paisleys
	Sm.	67 doz.	paisleys
Women's	Lg.	345 doz.	paisleys
	Med.	129 doz.	paisleys
	Sm.	243 doz.	paisleys
Children's	Lg.	77 doz.	paisleys
	Med.	56 doz.	paisleys
	Sm.	23 doz.	paisleys

PAISLEY IS OUT. GET ARGYLE!!

Please let me know when I can expect the paisley delivery. The sooner, the better.

Many thanks.

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soning: The two-year-long decline in the dollar's value in relation to the Japanese yen and major European currencies has made U.S. products more competitive in world markets.

"Trade is a critical element in better performance for the economy in 1987," says Allen Sinai, chief economist for Shearson Lehman Brothers. "The merchandise trade deficit ran $165 billion to $170 billion in 1986, and we're looking for improvement of about $30 billion this year." While Sinai's projection is somewhat on the optimistic side, it reflects a broad consensus that the worst is over. And none too soon for those who fear that mounting trade deficits will provoke a protectionist backlash in Congress.

The Democrats, who recaptured the Senate and increased their House majority in the November elections, have put trade at the top of their legislative agenda in the new 100th Congress. Party leaders expect to have a trade bill on President Reagan's desk by summer. Reagan has vowed to veto any bill he considers protectionist.

The trade debate likely will overshadow an issue that voters in one Election Day poll identified as the nation's No. 1 problem: the federal deficit. The deficit hit a record $220.5 billion in fiscal 1986 and is expected to exceed $180 billion this year despite the $144 billion target set by the Gramm-Rudman-Hollings deficit reduction law.

Some economists maintain that Congress should not even try to hit the $108 billion level mandated by the law for fiscal 1988 because the shock of cutting $70 billion in federal spending all at once would throw the economy into recession. A few analysts now advocate revising the law to eliminate deficits over 10 years instead of aiming for a balanced budget by 1991. Others foresee a need for a tax increase.

Reagan, however, vigorously opposes any tax increase to balance the budget. And Democratic leaders in the House and Senate have said they will not pursue the tax issue without his support. The only early action to look for is repair of any actual errors in the 1986 tax reform bill.

The new tax law will have a negative impact on the economy in 1987, say many economic experts. Though tax reform reduces income tax rates for both individuals and corporations, it boosts other business taxes $120 billion over five years by eliminating or curbing several tax breaks.

As a result, it will "depress further what was a weak investment outlook to begin with," says Wilson, citing "overcapacity in industry, office buildings and rental housing."

In addition, individual tax cuts are not fully phased in until 1988. This results in a 1987 tax increase for an estimated 18.5 percent of taxpayers, according to Congress' Joint Committee on Taxation.

The new tax law will trim half a percentage point from GNP growth, says Shearson's Sinai. David Berson, chief financial economist with Wharton Econometric Forecasting Associates in Philadelphia, gives two reasons why GNP growth will be lower: "Taxes on business go up in 1987, and reform hurts the multiple family housing sec-

Long-Term Stagnation?

John O. Wilson, Bank of America's chief economist, is one of the nation's most accurate economic forecasters.


PHOTO: GEORGE OLSON

Consumer spending and trade will be the only bright spots in an otherwise lackluster 1987 economy, says John O. Wilson, Bank of America's chief economist.

Wilson, 48, is among the best people in the business at forecasting—a skill acknowledged when he was awarded the sixth annual Theodore H. Silbert Economic Forecasting Award in November. He placed first for predictive accuracy among 51 economists who participate in a monthly survey conducted by Robert J. Eggert for his *Blue Chip Economic Indicators* newsletter.

The outlook for 1987, says Wilson, is for 2.2 percent (annual average) growth in gross national product—a forecast slightly lower than most. Inflation will stay in check at 3.6 percent, compared to about 2 percent for 1986, he says, and the unemployment rate will remain roughly at its current 6.9 percent rate.

Wilson expects the consumer to contribute 1.6 percent to overall growth for the year, net exports .8 percent, and business inventory buildup a paltry .2 percent. When adjusted for negative growth in business fixed investment, residential construction and government spending, the net GNP figure comes to 2.2 percent.

If there is an error in the forecast, it is likely to be that it is too favorable, says Wilson. "If the consumer falters or the trade situation fails to turn around as expected, the economy could easily slide into a recession."

Wilson fears the economy has entered a "period of long-term stagnation" brought on by government spending and tax policies. "The overriding problem is the federal deficit," he explains. "It's like an economic cancer that slowly erodes the economy's underlying strength by absorbing net savings that should go into financing new business investment."

Tax cuts in 1981 exacerbated this problem by stimulating consumer borrowing and nonproductive business investments, notably in office construction, says Wilson. The 1986 tax reform law encourages spending by cutting individual taxes but discourages saving by restricting the tax advantages of Individual Retirement Accounts. In addition, he says, it is biased against business investment.

Noting that the U.S. economy has not grown above 3 percent since 1984, Wilson says it should have. "When the economy has the potential to grow at 3 percent," he says, "it doesn't make sense to put in place policies that give you growth of 2 to 2.5 percent."

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Well, let me back up just a little. For over a year now we've been researching into what we've come to call *The SuperInvestor Files*. And so far we've come up with fourteen great little investing numbers that your broker – if you have one – may not even know much about. And the first one we've put into plain English is The TED Spread.

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in other words – *everything* you need to know, even if you've never invested before in your life!

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Rises to:	Your profit is:
500 points	$10,000 (1,000% return!)
250 points	$ 3,750
150 points	$ 1,250

Bought at 100 points

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tor." Lyle Gramley, chief economist for the Mortgage Bankers Association, expects apartment units built in 1987 to total 400,000, a substantial drop from the estimated 500,000 built in 1986.

Limits on tax shelters, together with a 21 percent nationwide office vacancy rate, will cause a substantial cutback in construction activity, says First Boston's Cahn. "The anticipated decline in office construction will be a drag on the economy in 1987."

Still, a number of economists believe that some of the law's negative effects on business are already behind us. Says Robert Dederick, chief economist at Chicago's Northern Trust Company: "The retroactive repeal of the investment tax credit has done most of its damage." That is because companies have already reduced their equipment purchases based on the tax changes.

Says Ben E. Laden, chief economist for T. Rowe Price in Baltimore: "A turnaround in investment spending is not likely until a sustainable general business recovery is evident." The Chamber's Rahn advocates a quick return to some form of capital cost recovery, maintaining that Congress undercut the manufacturing sector's ability to grow by eliminating the investment tax credit.

Analysts contend, however, that over the long term, tax reform will help the economy. "The lower marginal rates will be very positive," says Laden. Under the law, the 15-bracket system for individuals is reduced to three brackets: 15, 28 and—for a large number of higher income people—33 percent. Under the old law, the top rate was 50 percent.

For corporations, the decline is from a top rate of 46 percent to 34 percent, as of next July 1 (a company on a calendar year basis faces a top rate of 40 percent in 1987) with two lower rates for companies whose income is under $75,000.

Eventually, say economists, interest rates will decline relative to what they would have been without tax reform. The reasoning is that the phase-out of interest deductions will reduce incentives to borrow, trimming demand for funds and pushing rates down. In addition, higher after-tax returns on savings and limits on tax shelters will boost credit market funds, further helping to lower rates.

A minus for the economy, says Wharton Econometrics' Berson, is the fact that "the full tax cut for individuals doesn't occur until 1988. On average, throughout the year, consumers will

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see a tax increase." Just how strong consumer spending turns out to be in 1987 is a key element in how well the economy performs.

A major concern for economists is that consumers are too debt-laden to maintain the buying pace set in 1986. Today's debt-to-household-income ratio averages 85 percent. During the 1960s and 1970s, it was 69 percent.

But although consumers have added debt, Bank of America's Wilson points out, they also have increased their assets. The ratio of financial assets such as cash, money market funds, bonds and stocks to consumer debt is around 8.3 percent—nearly identical to the average for the past 10 years. This means, Wilson says, "that the consumer has been able to accumulate sufficient liquid assets to meet normal debt obligations."

Berson says, "We don't see consumers slowing down significantly. A lot of debt is being paid off monthly. And, with lower interest rates, longer loan terms and increases in personal assets, the debt burden is not greatly out of line." He estimates consumer spending rose 4 percent in 1986 and predicts it will grow 3 percent this year.

If the economy shows signs of running out of gas early in the year, economists expect the Federal Reserve to loosen the reins on interest rates. The Fed cut the discount rate four times last year, from 7½ to 5½ percent, to help keep the recovery alive. Because the discount rate is what banks pay to borrow from the Fed, when it falls, other rates tend to follow.

Given what he sees as generally lackluster growth prospects early in the year, John Paulus, chief economist at Morgan Stanley, projects that interest rates will drop to 4½ percent on 90-day Treasury bills and 6½ percent on 30-year Treasury bonds by summer.

But declining rates will not provide much kick to the economy. "We're in the fifth year of a growth cycle, and there isn't any pent-up consumer demand left," says Harold Nathan, an economist with Wells Fargo Bank in San Francisco. For the same reason, the Mortgage Bankers Association's Gramley says, a moderate decline in mortgage interest rates will not produce a repeat of last year's surge in home construction.

Economists generally expect interest rates to bottom out by summer and begin to creep upward during the year's second half as the pace of growth quickens, finishing 1987 about where they started.

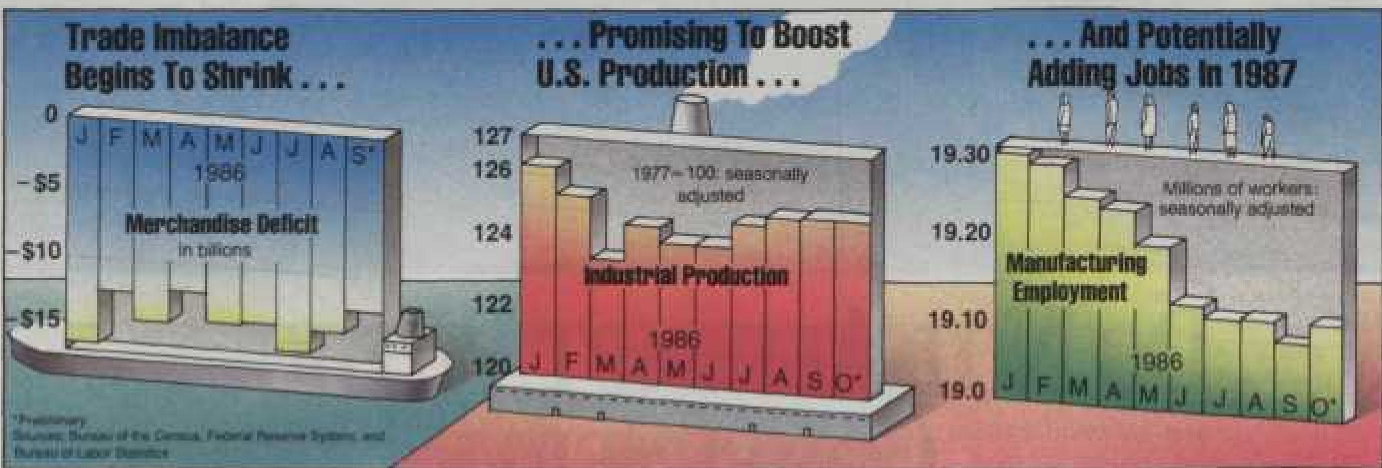
Just as falling interest rates will not help the economy much, a moderate rise in inflation is not expected to hurt much. Consumer prices are expected to rise about 3.5 percent in 1987, up from about 2 percent in 1986.

The consumer price index dropped sharply early in 1986, largely because of the unexpected collapse in oil prices—from $30 a barrel to one third of that by July. Since then, prices have climbed back to the mid-teens, and they are expected to remain there throughout the year. In addition, import prices have begun a mild acceleration in response to the dollar's drop relative to other major currencies. Together, these factors point toward a moderate increase in inflation.

Two major factors that often team up to boost inflation—a sharp rise in factory production and a sharp fall in unemployment—should be absent. Even with a modest pickup in the economy, industrial production is not likely to rise enough and unemployment is not expected to fall enough to put significant pressure on inflation, says First Boston's Cahn.

Low interest rates and moderate inflation will aid U.S. industries as they battle to reclaim international markets. But the biggest boost is coming from the drop in the value of the dollar, making American products more competitive.

Since hitting its peak in February, 1985, the dollar has plunged 39 percent against the Japanese yen, 41 percent against the German mark and 37 percent against the French franc. Yet the nation's merchandise trade deficit for 1986 is estimated at a record $170 billion, subtracting nearly a full percentage point from growth in inflation-adjusted GNP.



By the end of 1986, however, economists began to see signs that the trade deficit had turned the corner. Monthly merchandise trade deficit figures dropped in the fall from a summer peak. Few analysts took these volatile monthly figures as a sure sign that the worst was over; they relied instead on anecdotal evidence gleaned from talks with manufacturers.

"American manufacturers report increased interest in their products," says Bank of America's Wilson. "The French, for example, are suddenly interested in talking with American high tech industry rather than German, because American prices are much more competitive."

Continuation of this trend will mean that "net U.S. exports will be up about $40 billion, adding a little over 1 percent to the GNP," says the Mortgage Bankers Association's Gramley.

David Wyss, chief financial economist for Data Resources in Lexington,

Mass., expects an 11 percent surge for U.S. exports compared to a moderate 4.8 percent increase in 1986. "I see a stronger turnaround in trade than most forecasters," says Wyss. "When the dollar drops, the trade deficit always turns around slower than most people anticipate. But once the turnaround begins, it moves fast."

His optimism is not shared by Morgan Stanley economist Robert S. Gay. He maintains that foreign economic growth will average just 2 to 3 percent, too low to spark an export-led rejuvenation of U.S. production. He anticipates that exports at most will only equal half a percentage point of the GNP.

Imports, which currently represent 14.5 percent of the GNP, "are not likely to recede any time soon, because prices of foreign goods sold in the United States have not risen enough to change American buying patterns," adds Gay.

Though trade seems certain to dominate congressional attention early this year, many economists worry that untamed federal deficits pose a more serious long-term threat to the U.S. economy.

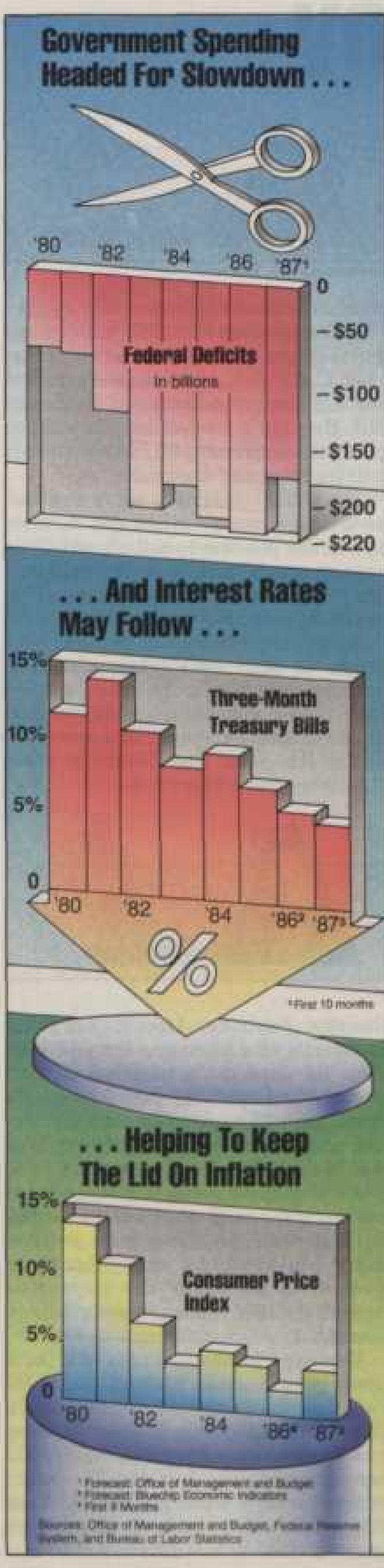
The national debt has doubled since 1980, passing the $2 trillion mark. What concerns economists most is not the dollar value of the debt, but its size relative to the GNP. At the beginning of the decade, the debt was 2 percent of the GNP. It now stands at 5 percent.

Historically, the national debt has risen only during wars or recessions. Since 1983, it has risen in a period of peacetime prosperity. Many economists maintain that the trend is unsustainable.

"The budget deficit is almost like an economic cancer," says Wilson. "It slowly erodes the economy's underlying strength by absorbing our net savings, which should be used to finance new investment by business for plant and equipment and by the consumer for housing and consumer durables."

Congress took a swing at getting the debt problem under control when it passed the Gramm-Rudman deficit reduction law in 1985. Budget cuts since the passage have slowed government spending's growth to 4.6 percent in fiscal 1986 and less than 1 percent this year, compared to 11 percent annual growth in the prior decade.

Despite this progress, the law has not worked as intended. The Supreme Court last summer threw out the automatic budget-cutting provision de-



signed to force compliance with yearly targets. And the fiscal 1986 deficit hit a record $220 billion, $48 billion more than the Gramm-Rudman target.

The Congressional Budget Office, a nonpartisan research arm of Congress, currently projects the fiscal 1987 budget deficit at $151 billion. But almost no private sector economist accepts that. Most expect a figure between $180 billion and $200 billion.

Congress may find it has no choice but to slow its pursuit of a balanced budget, politically less traumatic than cutting spending or raising taxes.

While many economists oppose raising taxes, Wilson maintains that a tax hike of the right sort would make sense.

Tax reform left too many incentives for consumption and too few for saving and investment, he says. He maintains that a national sales tax, without change in the new income tax rates, could correct this problem.

Gramm-Rudman targets for subsequent years, $108 billion in fiscal 1988 and $72 billion in 1989, now seem unattainable. "The targets will have to be changed or postponed," says Sung Won Sohn, chief economist for Norwest Corporation, a Minneapolis bank holding company. Sohn warns that meeting the targets could cause a recession.

Rahn says such fears are unfounded. "The old Keynesian notion was that the government needed to spend money to stimulate the economy," he says. "But it's dead wrong. The economy would be better off if we cut spending" to meet the Gramm-Rudman targets.

Whether Congress begins to get a grip on the deficit issue this year may depend as much on the economy's health as on any policy initiatives lawmakers take. A robust economy will swell tax receipts and shrink the budget deficit. A faltering one will have the opposite effect.

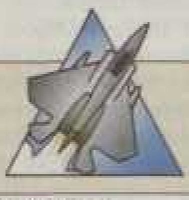
This makes sound economic forecasting all the more important at a time of uncertainty about what the future holds. The issues steering the economy in 1987—tax reform, trade and debt—take even the most seasoned analysts into uncharted waters.

Says Robert J. Genetski, chief economist for the Harris Bank in Chicago: "I don't have a whole lot of confidence in any figure for 1987." NB

To order reprints of this article, see page 65.

COVER STORY

What The Experts Say



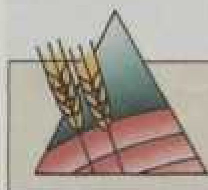
Aerospace

DESIGN: MARY CZARNIK

Deliveries of commercial aircraft will be higher in 1987 than in 1986 as airlines continue to add capacity, says Robert Kugel, aerospace analyst with Morgan Stanley & Company. This means revenues and profits in this sector will be somewhat better.

The general aviation business has been very depressed by historical standards. And it does not show much chance of improving significantly in 1987, Kugel says.

On the military side, most major contractors should report higher earnings in 1987 compared to 1986, he says, but the long term is not particularly encouraging, because defense spending could decline over the next couple of years. Profit margins have been squeezed the past two years because of a more competitive procurement environment.



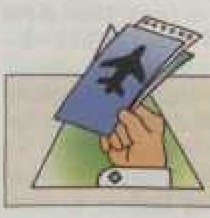
Agriculture

ILLUSTRATIONS: MICHAEL ADAIR BROWN

Farm commodity prices will remain "fairly depressed" in 1987, but demand for feed grains will increase, says Stephen C. Gabriel, a partner in Farm Sector Economics Associates, Bethesda, Md. He says a modest recovery in exports and expansion of livestock herds will spur demand for grains.

The dollar's declining value and lower U.S. commodity prices put farmers in a better position to sell abroad. "But exports won't come back like gangbusters," Gabriel cautions, because of increased production worldwide.

Congress probably will consider proposals to scale back what some lawmakers consider to be unacceptably high direct government support payments to farmers, expected to reach $15 billion this year. But Gabriel predicts the status quo will prevail.



Airlines

David Sylvester, airline analyst for Montgomery Securities in San Francisco, is looking for "a good but not great year for earnings." Continued modest economic growth should help boost revenues for the group. But above-normal growth in capacity means costs will also rise in 1987.

Sylvester says this capacity growth is unnecessary, but the die has been cast by airline companies that made aircraft acquisitions in 1985, before consolidation took place. The motivation to add capacity is not as great now as it was previously.

If the economy continues to grow, outstanding earnings are possible in the future as airlines are better able to align costs with revenues, he says.

Also, he does not see catastrophic fare wars that will penalize earnings.

Autos

Ann Knight, auto analyst with Paine Webber, expects sales of autos, including domestic and foreign models, to run between 10.5 million and 11.5 million this year.

In both 1985 and 1986, the figure was close to 11 million.

Tax reform will not have a negative impact on sales, Knight says. About 80 percent of car buyers do not itemize income tax deductions and thus will not be affected by the phase-out of the consumer interest deduction. Over the longer run, the tax law will have a mildly positive effect on the auto industry because lower personal income tax rates will encourage demand, Knight predicts.

Another indicator of the industry's prospects is the ratio of total auto ownership cost to household income. This measure of ability to buy autos is very favorable in 1987, Knight says.

Banking

Charles Peabody, Drexel Burnham Lambert's vice president for research, says he expects "a slowing in loan growth in 1987." He says the year's first half will be weaker than the second and, on the whole, profit margins will be under pressure in banking.

A rising trend in losses from bad consumer loans will continue, Peabody says. Banks must concentrate on trimming overhead, he says—"expense growth must be in the 6 percent range." In 1986 it was running 9 to 10 percent.

Mortgage banking stands out as a good growth area, Peabody says. He expects large money center banks to push for expanded investment banking powers. The major regional banks will see earnings growth in the 13 percent range, he says, while major New York City banks will experience single digit growth.

Commercial Construction

"The outlook is not favorable," maintains analyst Terence York of Drexel Burnham Lambert.

He says there is a widespread oversupply of new offices. It is particularly acute in areas tied to the energy markets—Houston and Dallas—he says, and some oversupply is developing in Denver, New York and Chicago.

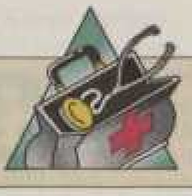
Construction will decline in 1987, but it will take several years for excess office capacity to be filled, York predicts.

Unlike office construction, which has often been motivated by tax benefits, retail construction has been motivated by economic prospects.

York says retail construction will not decline in 1987, but its rate of growth will slow.

He expects overall commercial construction spending to be down 17 percent in 1987, following a similar drop in 1986.

Authorities at investment and forecasting firms go out on a limb—sort of—to predict the 1987 performances of a number of industries.



Health Care

David Lothson, a Paine Webber senior vice president, says earnings growth for firms in the pharmaceutical, hospital supply, health service, biotech and medical devices areas will average about 14 percent over the next five years. On average, earnings growth among firms in this group will be about 8 percent in 1987, Lothson says. But in the pharmaceutical area, he looks for 15 or 16 percent. In the hospital supply area, he expects 22 percent.

Cost pressures on hospitals will remain heavy, and competitiveness will intensify, Lothson says. A major trend influencing pharmaceutical and hospital supply companies' earnings will be the lower value of the dollar. From 1980 to 1985, international business for these firms grew only 2 percent yearly. He expects much better performance now.

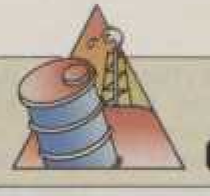
Housing

"There will be a slight deterioration in the housing sector in 1987, concentrated in rental apartments," says Larry Horan, senior analyst with Smith Barney. There is a sizable oversupply in the apartment market.

Part of the reason, Horan says, is that many builders, developers and syndicators rushed to build before enactment of the tax reform law. There should be a sizable decline in apartment construction in 1987, he says.

Horan does not see one in single-family construction. But he cautions that there will be pockets of weakness in Colorado and Texas—states whose economies are associated with agriculture and energy.

He looks for starts of housing of all kinds—1.85 million in 1986—to total 1.7 million this year.

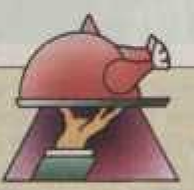


Oil

Overflowing worldwide inventories of gasoline and heating oil will hold prices down through winter, says Scott Jones, chief energy analyst for Chase Econometrics.

Only an unusually severe winter in Europe or the United States could sop up enough excess heating oil to boost prices significantly, he says, and gasoline prices will remain low until summer, when inventories will fall and prices will rise as much as 20 percent.

The Organization of Petroleum Exporting Countries' efforts to boost crude oil prices to $18 a barrel from the current $13-$15 level will fail, says Jones. "The only way OPEC could make the price increase stick is for someone in the cartel to cut production more than 2 million barrels a day," and no one is willing to do so, he says.

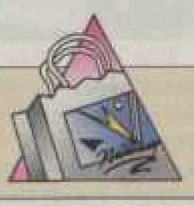


Restaurants

"The temperature of the industry is somewhat better—it looks moderately positive," says David Warnock, a vice president of T. Rowe Price. "Food prices are not expected to go through the roof, and there will be somewhat of a pickup in customer demand."

Warnock says the elimination of the investment tax credit will be positive because it will slow down the entry of new restaurants: "There is too much supply. You will see more restaurants go out of business." The industry's fast food segment should show some improvement in 1987, he says. Last year was "terrible" for some fast food firms. Warnock expects to see fewer gimmicks like discounting and couponing, which cut into profits.

A growing problem for the restaurant industry, he says, is grocery stores' upgrading their capability of offering prepared foods for takeout.



Retail

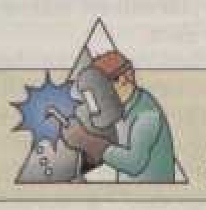
This year will not be as nice to retailers as the last one, says Joel Popkin, president of a Washington economics consulting firm bearing his name.

"The first half will look pretty bleak to the average retailer," he says. "We expect very slow real growth of about 1 percent. In fact, if Christmas doesn't turn out to be as good as retailers planned, they could be left with too much inventory. And we could get a quarter of negative growth."

Commerce Department data points to future weakness: Retail sales plunged 5 percent in October.

Big-ticket items such as cars, appliances, TVs, stereo equipment and personal computers will be hardest hit by economic sluggishness, Popkin says.

He says that 1986 also started slowly for retailers but picked up. He foresees an upswing in growth to about 3 percent in the second half of 1987.



Steel

The industry faces "another year of decline in domestic demand," says John Jacobson, director of the U.S. and world steel research and forecasting services for Chase Econometrics.

Domestic shipments will be flat, and imports will drop 3 percent, he says.

Raw steel production in this country is expected to total 81 million tons in 1987. That would mean a decline of more than 40 percent in seven years. Prices remain weak. Spot steel prices slid roughly 25 percent from 1981 through early 1986.

Voluntary restraint agreements have begun to limit some of the import flow of steel, Jacobson says.

The big problems today for domestic producers are not Japan and Western Europe, but Brazil, Korea and Taiwan, he says. He says steel production is growing in those countries, and the trend will continue.

COVER STORY

Entrepreneurs: A Tide Is Changing

Start-ups are still rising, but no longer startlingly so. And some negatives may lie ahead.

By Sharon Nelton

Marc and Sara Ostrofsky are the quintessential 1980s entrepreneurs. Catching the waves of the information age and the service boom at the same time, the Houston couple started U.S. PayPhone Corporation, serving the rapidly changing coin-operated telephone industry with a trade magazine, *PayPhone*.

Launched in their one-bedroom apartment with a $5,000 bank loan, their business was one of a record 668,900 American incorporations in 1985.

Like many entrepreneurs, the Ostrofskys are young—Marc is 25, and Sara, 24. And Sara joins the fastest growing segment of entrepreneurs in the country—female business owners.

Their business is growing with exceptional speed. What began as an eight-page, bimonthly newsletter is a slick, 116-page monthly. The Ostrofskys, who have six employees, expect revenues to exceed $500,000 in the fiscal year ending April 30.

They know that success can do their business in. "It's just growing and growing, and when you cannot manage it, it can fold," says Sara.

In this decade, often called the Age of the Entrepreneur, our romance with entrepreneurship still seems to be in flower. Chivas Regal has started a Young Entrepreneur Awards program, and "The Entrepreneurs," a six-part television series, runs nationally through March. At the recent National Conference on Entrepreneurship in Washington, Rep. Jack Kemp (R-N.Y.) noted that 9 million of the 10 million jobs created in the last three years were at companies with fewer than 100 employees.

There are signs, however, of change.

Carol L. Colman, a partner in Inferential Focus, a New York trend analysis firm, contends this is not the age of the entrepreneur at all, but an age of "safety." Enamored of things "mega," Americans have been attracted to big corporations, she says. The role models have been fast-trackers, workaholics and chief executive officers. But Colman says many men and women who have driven themselves to the top are finding it not worth the sacrifices they have made. She predicts that more people will "fit work into their lifestyle as opposed to have work [be] their lifestyle." This will mean more people working at home and starting cottage industries, particularly in services.

Like many entrepreneurs, Marc and Sara Ostrofsky, of Houston, are young. Unlike some other new firms, their business is a smashing success. They publish a trade magazine for the coin-operated telephone industry.

PHOTO: ROBB KENDRICK

Especially good start-up candidates, suggests Thomas A. Gray, Small Business Administration director of economic research, are enterprises that enhance use of microcomputers. Gray explains this is partly because such firms will feed into the home business trend. He also expects high growth in "mundane service areas"—such as restaurants—reflecting a continued American desire to trade money for time.

Start-ups increased 5.4 percent in the first half of 1986 over the same 1985 period—a slightly lower rise than we have become used to and one that reflects, says Gray, slower growth in the economy. While the number of start-ups will continue to be high compared with a decade ago, he says, "we will not see really high growth" for at least the next two years.

Between now and the end of the century, demographic shifts may have a negative effect on business start-ups. Because the baby boomers and an enormous number of women have already been absorbed into the work force, we will begin to see some labor shortages, Gray says. Wages will be bid up, a factor favoring larger companies over smaller ones and making corporate life more attractive to people who might otherwise be entrepreneurs.

Some observers suggest that tax reform, by removing some advantages to business, could deter start-ups. But Gray says it will encourage entrepreneurs to consider the real rate of return on investment, not tax breaks, and "that's a very healthy situation."

Vicki Smith Downing, president and CEO of International Venture & Equity Capital, in Dallas, adds that tax reform will not seriously cut into the supply of venture capital because "venture capital is based on true economic gain and not tax shelter."

Whatever the future brings, *PayPhone* founders Marc and Sara Ostrofsky are determined not to have to work for someone else.

"That is the scariest thing to me right now," says Marc. "Every day I think about it, and the more I think about it, the harder I sell ads." NB

COVER STORY

Technology: Back From The Bottom

The advent of new products combined with improved software for networks should set the stage for a major computer industry recovery.

By Karen Berney

Computer makers, having hit the bottom of an industry-wide slump, are expecting a modest recovery this year. The upturn would help semiconductor producers and could set the stage for a rebound in both industries in 1988, analysts say.

Sales of computer hardware will reach $46 billion in 1987, up 10 percent over 1986, according to projections by International Data Corporation, a Framingham, Mass., market research firm. Sales in 1986 grew 8 percent over 1985.

Although those figures would in any other industry sound like strong growth, they must be placed in the context of the computer industry's historic patterns, which show increases as large as 208 percent from 1982 to 1983.

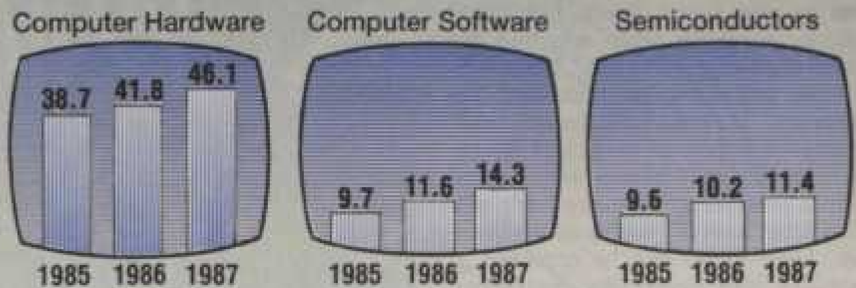
IDC expects software revenues will reach $14.3 billion in 1987, a 23 percent increase over 1986. That pickup compares to the 19 percent sales growth the software industry experienced in 1985, IDC says. During the years of 1982 to 1984, software makers' sales grew at an annual rate of 40 percent.

The 2½-year slowdown in computer sales, sparing only a few manufacturers—most notably Digital Equipment Corporation—has been blamed on a variety of causes: low capital spending, excessive additions to capacity in the boom years of 1983 and 1984 and lack of software to weave different vendors' computers into useful networks.

"Much of the slowdown is related to industry product cycles," says Rick Martin, a computer analyst with Sanford C. Bernstein & Company, a New York brokerage firm. Old, unexciting and incompatible products have dominated the market, he explains. DEC has been able to prosper while IBM's profit margins have been shrinking, Martin says, because DEC has the lead in new machines and an effective strategy to lash those machines together. But IBM is planning a counterattack. In mid-1987 it will challenge DEC head-on with a new line of midrange computers.

Other major players will begin making their contributions to the next generation of PCs, which will be based on a new microprocessor chip and new software. By 1988, "all of these new products will be in place, and the industry will be poised for a runaway, good-news year," predicts Martin.

1987: A Recovery Year



Sales In U.S. Market: (Billions Of Dollars)

Source: International Data Corporation, Dataquest

Not far behind will be the semiconductor industry, which derives half of its business from computer vendors (the telecommunications, consumer electronics and automobile industries make up the rest). In fact, the industry is positioned for its "most dramatic comeback to date," says Thomas Kurlak, Merrill Lynch's chief semiconductor analyst.

One plus is the five-year pact between Washington and Tokyo to stop the dumping of Japanese chips below cost and to expand the American share of the Japanese chip market. "In 1987," says Kurlak, "on just a 10 percent increase in revenues, I expect to see the semiconductor industry earn back in profits the $800 million it lost last year."

Not all analysts are so optimistic. At In-Stat, Inc., a Scottsdale, Ariz., semiconductor research concern, the forecast is for a 5.1 percent growth in sales.

Buyers of computers for large corporations also have a less bullish view. A poll by Decision Research Corporation, Lexington, Mass., indicates that the average corporate equipment budget will increase 10 percent this year, but the added expenditures will not necessarily go for emerging products.

Customers, following a bout of frenzied buying in the early 1980s, "want to digest and maximize existing investments before gearing up for more purchases," says Paul Cole, the firm's senior research manager. Instead of new technology, they want ways to make full use of equipment they already have. That should increase demand for data communications—software that links PCs to each other and to larger computers.

Buyers are more interested in service, says Cole. He says firms that have prospered in spite of the slump—particularly vendors of networking software and maintenance and repair services—will continue to succeed in 1987.

Indeed, the network and maintenance businesses appear to be mutually reinforcing. As companies install more communications nets that link equipment from different manufacturers, their demand for quality hardware maintenance intensifies. Some experts expect revenues of vendors providing third-party maintenance services could go from a predicted $1.5 billion in 1987 to $4.8 billion in three years.

Though analysts are divided on how soon the computer industry will rise on a tide of new products, nearly all agree that a recovery is in progress and will slowly gather steam through 1987. But none foresee a return to the kind of bonanza that virtually overnight created multimillionaires out of people like Apple Computer's Steve Jobs.

The consensus is that today's customers are spending less and want to make sure that what they buy now will work with the products of tomorrow.

As a result, though its severe troubles of recent years are ending, the computer industry will have to achieve new levels of compatibility among products before it can expect to approach the good old days of one record-breaking year after another. NB

COVER STORY

Trade: Debate Over Protection

Although the numbers will improve, protective actions could provoke a trade war that would stifle imports and exports alike.

By Henry Eason

The high tide of imports will begin receding this year, but not enough to stop congressional moves to protect trade-battered industries. The trade deficit is expected to drop no more than $40 billion.

Even small business people who in the past could not have cared less about exports and imports will join the Great Trade Debate of 1987, so deeply is trade affecting the overall economy.

There will be some statistical improvement in our merchandise trade balance—a deficit of perhaps $140 billion instead of $170 billion—but this will be little comfort to the many trade-sensitive firms in every sector of the economy. Their anger can be expected to translate into protective legislation aimed at our trading partners.

Because trade is shaped greatly by politics, government actions in Washington, Ottawa and Tokyo will quickly be felt in Atlanta and Seattle. All eyes will be on Washington.

If the new Democratic Congress decides to stem the gush of imports by simply stopping some of them at dockside, attention will shift quickly to foreign capitals.

Already, Canada has reacted to an increased American tariff on wood products with prohibitive new corn import duties. And the 12-nation European Economic Community is at the boiling point over what its members say are U.S. protective actions against Common Market steel, food and other exports.

Japan has been moving steadily to open its once-restricted markets to American goods. It has strengthened its yen and is trying to stimulate its domestic economy. But it is already paying a price in the form of record factory layoffs, dramatically reduced corporate profits and lost export markets.

Debt-ridden Latin American countries are struggling to repay loans with exports, while protecting their home markets from imports. Declining oil prices have cut into the buying power of the once-rich Organization of Petroleum Exporting Countries in Asia, Africa and Latin America.

Newly industrialized countries like South Korea, Taiwan, Singapore and Hong Kong are exporting at full tilt in competition with American wares. Reductions in the value of the dollar against some currencies will soon make U.S. goods more competitive with European and Japanese products, but the

PHOTO: BOB GINN—EKM NEPENTHE

currencies of Asia's "four tigers" float with the dollar, so that Korea's cars and Hong Kong's textiles will continue to challenge American products.

Though the overall trade numbers will improve for the United States, the picture will still be bleak. If politicians respond with protectionist actions, trade wars could break out, further stifling imports and exports. Senate Majority Leader Robert Byrd (D-W. Va.) says Congress will approve major trade legislation this year. "The critical industries of our nation are crying for it," says Byrd, adding: "It is high time that a credible effort to reform the international economic system be made."

Institute of International Economics Director C. Fred Bergsten says an expected $30 billion-$40 billion drop in our merchandise trade deficit should add 1 percent to the growth of the gross na-

Trade: Debate Over Protection

Senate Majority Leader Robert Byrd says Congress must shield U.S. firms from unfair foreign trade practices.

Congress should not overreact, U.S. Trade Ambassador Clayton Yeutter says, and he does not think it will.

PHOTO: DIANA WALKER—LIAISON AGENCY

PHOTO: BRAD MARKEL

tional product in 1987. Bergsten and other economists say the decline of the dollar, which began almost a year ago, will begin to have a clear impact on trade this summer. But, the economists insist, it must be coupled with increased demand in Europe and Japan if America's export engine is really to be fueled.

A U.S. Commerce Department report on trade in October said: "There is little real evidence of a strong renewal of growth in key industrialized export markets sufficient to markedly increase U.S. exports in the near term."

The Commerce Department and Bergsten maintain, however, that American exports to newly industrialized nations and the Third World will displace many Japanese and European products because of the cheaper dollar.

"We need to focus on the broader problem of how to make this country more competitive," says Alfred Eckes, a member of the U.S. International Trade Commission. "In the 1960s we rose to the Sputnik challenge with the space race. Economic competitiveness is an even graver issue."

Sen. Max Baucus (D-Mont.) agrees. He is an influential member of the Senate Finance Committee's trade panel. "There is a growing realization that we have to get out there and hustle and compete and do a better job."

Some of the solution to America's trade woes lies, he says, in granting more tax credit for research and development, passing pension laws that will make workers more mobile and providing funds for retraining those moving out of sunset industries.

Reagan administration trade boss Clayton Yeutter says a Democratic Congress does not necessarily spell protectionism. He says: "I look for a more responsible attitude to prevail on trade [in Congress] than was evident in some of the campaign statements" in last year's elections.

Yeutter makes it clear that the Republican White House "is not about to embrace protectionism." Instead, it will continue to aggressively attack other countries' unfair trade practices by using laws already on the books.

Some of the anticipated congressional proposals will require the United States to restrict imports on a tit-for-tat basis in an attempt to open certain foreign markets.

Other bills could call for more heavy-handed quotas and tariff surpluses on imports. Yet others call for fine-tuning trade laws to give the administration more flexibility in negotiating trade pacts.

Much of 1987's trade picture will depend on many private sector actions. Even during the stormy high dollar days, numerous American firms were making money overseas.

Donald Vaughn, president of an engineering firm that is designing huge energy projects in more than 20 countries, says America is competitive in many services export fields.

The M.W. Kellogg Company, Vaughn's Houston firm, has continued to make a profit even in the face of falling oil prices. Vaughn says American traders "are going to have to be more innovative" in packaging export projects.

An innovator, Vaughn has sometimes sent Korean and Filipino labor to work with American management in building Third World power plants partially financed by Japanese money. "In many cases [American management] is guilty of not adjusting and recognizing that the world has been changed by foreign competition."

The world, Vaughn observes, has become too complicated for heavy-handed protectionism. "We do a lot of work with Japan in joint ventures," he says.

There is only slim hope for substantially increased merchandise exports this year. American textiles, for example, are caught in trade cross-currents, says Norman Hinerfeld, chairman and chief executive officer of New York's Wingspread Corporation, an apparel firm.

The United States is now more competitive than Japan and European apparel makers from a currency standpoint, but that is not enough, says Hinerfeld, because our competitors are now getting cheaper energy and pay less interest on capital.

One development in trade this year could be more exporting efforts by aggressive, better-mousetrap small firms as a result of dollar competitiveness in Europe and Japan.

Hinerfeld, who has been involved in a U.S. Chamber of Commerce-led campaign to help small firms export, says it will take only a few success stories to show others the way into the world market.

Talks have begun under auspices of the General Agreement on Tariffs and Trade that the United States hopes will lead in several years to adoption of more liberal trading rules, especially in the services and agricultural sectors that are so crucial to American export growth. Little the 92-member GATT negotiators will do this year in Geneva will directly affect trade, but free traders believe the negotiators may send some good signals that will affect the many ongoing bilateral trade talks. But for the coming year, the only talks that will have an actual, direct impact on American global trade appear to be those occurring at both ends of Pennsylvania Avenue. NB

Computerizing With Confidence

By Karen Berney

Your new computer system has arrived. You are eager to hook it up, plug it in and fire it up.

You have done things right to this point; don't stop now. Have you prepared a site for hardware? Do you have the help you need to set up the software? Do you have a schedule for data conversion, for turning manual information into electronic information?

This phasing-in stage is easy to neglect, but if you do, your careful preparation could well end in frustration.

Computerized accounting—the most appealing, potentially troublesome form of automation for small businesses—requires five steps: site preparation, hardware installation, setting up software, converting manual information into electronic data and running manual and automated operations in parallel for a period to assure that the new system is running smoothly.

Other uses may not require the last step (or two), but whatever you are planning, before your computer is delivered, you should think about creating a comfortable home for both the equipment and the people who will be using it. This may entail buying some accessories, but primarily it requires thoughtful planning.

Sitting for hours in front of a computer screen—the video display terminal, or monitor—can be stressful. In the growing body of research on VDTs, computer users consistently report feeling greater visual and muscular discomfort than do workers in similar jobs without computers. Such stress, agree experts, can be substantially minimized by a combination of proper lighting and easily adjustable furniture.

If you plan to put your PC on a desk top, you can inexpensively turn the area into a computer work station with an adjustable chair and a keyboard tray that attaches to the desk and allows for various height and angle adjustments. For those with larger budgets, there are compact, all-in-one computer cabinets with dozens of optional features like document holders and palm rests. These range in price from $250 to $600.

Eyestrain may be caused by glare reflected from the surface of the display screen. Antiglare screens that cover the front of the VDT cost a bit under $100. Many monitors tilt and swivel and

When you first computerize, you should think about creating a comfortable home for both the equipment and the people who will be using it.

ILLUSTRATIONS: WANGDON LEE—EUCALYPTUS TREE STUDIO

can be positioned to minimize screen reflections.

Illumination over the computer should be indirect and diffused. Harsh lighting contributes to glare and washes out the contrast between the characters and background on the screen. To soften existing overhead lights, experts recommend covering them with parabolic louvers.

And, experts advise, you need to get your employees to take breaks from the machine. Many new users feel insecure about computers and compensate by staring steadily at the screen, muscles tensed, as if the beast were going to attack them. Although this is a natural reaction, it will certainly lead to stress and fatigue. Insisting that users look away, stretch, change positions and get up and walk around is essential to alleviating early complaints.

Like your employees, your PC requires some tender loving care. Computer memory is volatile; a sudden surge or drop in current can wipe it clean. An inexpensive surge suppressor between the computer plug and wall outlet will filter out voltage spikes and other surges that can and often do bedevil computers.

To guard against power failure—even one that lasts a fraction of a second—you should consider a standby battery supply that will give you enough time to save and transfer data to a floppy disk. Some of the more expensive PCs come with a surge suppressor and an auxiliary, uninterruptible power supply built in.

Another form of insurance you will want to take out sooner than later is a maintenance and repair contract. Computers come with a limited warranty—the average being 90 days—from their manufacturers. After that, you are on your own; have a policy waiting in the wings.

Small companies particularly need to be sensitive to the impact service can have on day-to-day operations, says Donald F. Blumberg, a Fort Washington, Pa., consultant specializing in computer services. Small businesses, typically users of one or two PCs, pay a high penalty when one goes down and stays down.

You have a wide choice of vendors to service your PC. In addition to traditional manufacturers, many of which now offer repair on their competitors' equipment, you can pick and choose from a number of retailers, like Radio Shack and Computerland and from some new arrivals on the scene, third party maintenance organizations. The latter include such firms as Bell Atlantic's Sorbus, TRW's Customer Service Division and RCA Service Company.

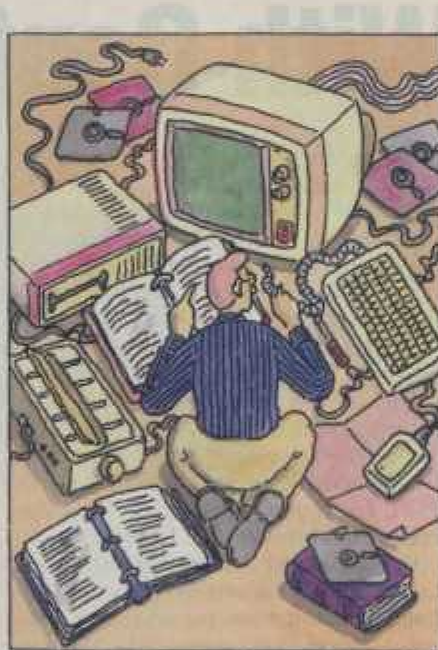
Nearly all vendors will tailor an on-site or off-site service package to meet your specific coverage needs. They can be on call to arrive at your office within 30 minutes, 24 hours a day, seven days a week. The key, says Blumberg, is to define service response and repair targets and choose a vendor who can meet them. Naturally, the more timely the service, the more expensive the contract. In general, Blumberg says, you can expect to spend 2½ times the actual cost of the hardware on maintaining your equipment over its five-to-six-year life span.

Hooking up the parts of a computer system is not like plugging in a toaster. Different system pieces have to be

Hooking up the parts of a computer system is not like plugging in a toaster. Different system pieces have to be made to work together.

made to work together. Recalls Daniel Goldsmith, a Berkeley, Calif., software designer and consultant to small business: "The first time I connected a laser printer to a PC it was quite a challenge. It took me hours to make enough sense out of the manual to understand what was happening, and I make a living out of doing this stuff! Can you imagine how long it would take a novice?"

Unless you are prepared to spend some time studying manuals or have an experienced friend, you should ask the vendor to install your PC. This job will set you back about $75. In fact all after-sales support, from simply loading software programs onto a hard disk to teaching your employees how to use them, costs extra. Most vendors, however, offer deep discounts on quoted prices depending on how much business you give them and how many services you bundle into one invoice.



Software that runs on your hardware can present more problems than the equipment itself. If you are brand new to computers and do not enjoy games designed to test your powers of logic, this may be the time to get an expert.

"The biggest misconception in the computer industry is that when you buy software, you buy a solution," asserts Jeffrey Sachs, president of the Independent Computer Consultants Association, St. Louis. In reality you buy a problem. You do not pop in software and instantly start processing words, spreading sheets or posting accounts, he says. First you have to whip the software into shape, and that requires time and skills that most small business owners do not have. Consequently, many find it cheaper, faster and easier to give the job of setting up software, especially accounting and database management programs, to someone else.

Sachs says that if you are prepared to spend some time with a manual, you can probably figure out how to install a word processing program with little aggravation and trouble. After attending a one-day class or seminar on spreadsheets, you should be able to tackle Lotus 1-2-3 or any other popular number crunching program.

But with accounting and database management, things can get difficult

Entering material from a manual accounting system to an automated one, often overlooked as an automation cost, is tedious and time consuming. Each piece of information—names, addresses and numbers—must be entered accurately, with an account title, descriptive information and a starting balance.

very quickly. Accounting software requires experience in installing accounting packages, and the latter demands no less than knowing how to do the programing in a special database language. Some learn these lessons the hard way.

When Mesa, Ariz., Chamber of Commerce President Gene Meeker bought a $9,000 accounting package two years ago, he never dreamed his 20 employees would be staying after hours and coming in Saturdays in a determined effort to get the software up and running. The program had been specifically designed for chambers of commerce, and "I was under the impression that it was ready to use and as easy to learn as driving a car," he says.

But they do things a bit differently at Mesa's chamber than at many other chambers around the country. In preparing budgets, for example, the Mesa chamber breaks down expenditures into a number of categories—one for internal affairs, another for community relations, etc. "Our problem was figuring out how to get the software to handle more than one budget category and reporting function," Meeker says.

Meeker had trouble dealing with such basics as plugging in Arizona's tax tables so the software would automatically calculate state withholdings and deductions when it wrote payroll checks. In a four-month struggle, "we found it impossible to adjust the software to our needs," Meeker says.

But he had received a mandate from his board of directors to do what was necessary to get on-line, "and I was committed to carrying it through at any cost," he says. So when a consultant presented him with a $2,000 bill to fine-tune the software and train employees to use it, Meeker did not blink an eye. "I knew it would be a lot more cost-effective to pay him and get my employees back into the jobs they were meant to do."

Meeker was so happy with the results that he decided to spread the word. He launched an ongoing seminar series to share the chamber's computerization experiences with area businesses. His message, he says, is "to expect trials and tribulations but to see them through at all costs because the benefits are worth it."

Employing a consultant need not strain your automation budget. Nancy Crewdson, a partner in Cambria Corporation, Palo Alto, Calif., specializes in setting up accounting and database management programs for small businesses. Crewdson says she can usually get a program to do what the customer wants in eight hours, at a cost of $40 to $50 an hour. "What I deliver," she says, "is instant gratification: the ability to press buttons and produce results."

How does her time break down on a typical accounting job?

The first hour or two is spent with the boss and his accountant to get a reasonable idea of what they are doing manually and expect to accomplish through automation.

Once Crewdson has ascertained the kind of information the client wants to see on the desk at the end of the day, she gets to work on the software—a four-hour task on average. Then Crewdson turns over the task of data entry to the accounting staff.

It is a tedious and time consuming activity, often overlooked as a cost of automation; each piece of information—names, addresses and numbers—must be entered accurately, with an account title, descriptive information and a starting balance. To make life easier, Crewdson recommends starting the conversion process at the beginning of an accounting period when data are clean and current.

After the data are converted, Crewdson returns to conduct demonstrations of the system and answer users' questions. Within a few hours employees generally feel confident enough to begin using the computer to post day-to-day transactions, she reports.

At this point, you and your staff will be tempted to ditch the old ways for good. Nevertheless, you should run both the automated and manual systems in parallel for at least a month to ensure that the computer is not making any mistakes.

By now the computer is running smoothly, you pick a date to cut over to full automation, thank the consultant and send him on his way. But that is not the end of the relationship.

Big companies have managers of information systems to handle computer problems. Small businesses usually cannot afford to keep a full-time MIS on staff, but they need the help of one from time to time. This is where a consultant comes back into the picture.

Says Daniel Goldsmith of his profession: "What we are seeing are businesses with sales in the $250,000 to $10 million range forming long-term relationships with consultants. They turn to us to get them pointed in the right direction and keep them that way." Perhaps Crewdson captures it best when she declares, "To my clients, what I am is an affordable MIS and data processing department rolled into one."

Clearly, a good consultant is well worth his or her fee. So when it comes to hiring one, you should shop around and check references until you are satisfied that he or she understands you and your business well enough to get the job done. NB

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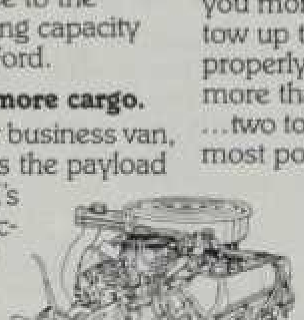

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The Tiny Starts Of Titans

By Walter Wingo

***Nation's Business* is observing its 75th anniversary in 1987 with an anniversary issue in September and special articles like this one in other issues.**

When John Kellogg was a young medical student in the 1870s, he often found himself swamped in studies. Even breakfast preparation meant an irritating loss of time. Wouldn't it be nice, he asked himself, if he could buy precooked, ready-to-eat cereals?

In 1895, what had been a daydream became business reality. Dr. Kellogg began producing a flaked breakfast food in a small barn behind a Battle Creek, Mich., sanitarium. His Sanitas Food Company eventually became, simply, the Kellogg Company.

Other colossuses of American business also cherish chronicles of the ways they set out for household namehood.

In 1903, for example, salesman Alfred Carl Fuller invested $375 of savings in a hand-operated wire-twisting device and $65 in wire fiber. With them he made brushes at night in the basement of his sister's Boston home and sold them door-to-door during the day. In 1973, when he died, his Fuller Brush Company was worth $130 million.

Gerhard H. Mennen, a pharmacist at a small Newark, N.J., drugstore, began selling his own versions of talcum powders and corn killers in 1878. He was so proud of them that he put his picture on every label. Eventually his Mennen Company was distributing an expanding variety of products to other drugstores around the whole nation and the globe.

Such stories of the entrepreneurial spirit are common, too, in today's high tech business environment. In 1977, Steve Jobs, 21, sold his Volkswagen bus and Steve Wozniak, 26, sold his two calculators to finance their output of personal computers in the Palo Alto, Calif., garage of Jobs' parents. Within seven years, annual sales of their Apple Computer, Inc., were topping $1 billion.

The typical path of success leads from modest beginnings through periods of astounding expansion, fierce competition, jolting changes in management and—often—changes in ownership. Remarkably, many corporate giants' day-to-day operations are still strongly influenced by policies of their founders.

Walter Wingo is a Washington-based free-lance writer.

The year is 1837. The locale is Illinois. The man in the white shirt is John Deere, and he is showing farmers and business people a plow that scours itself.

PAINTING: WALTER H. HINTON

Take Deere & Company, celebrating its 150th anniversary in 1987. Its founder: John Deere, a Vermont blacksmith who moved to the tiny village of Grand Detour, Ill.

Most Easterners going westward then were farmers. Cast-iron plows they brought with them kept getting stuck in the Midwest's rich prairie soil and had to be scraped off every few feet. Deere listened to complaints and devised slick steel plows that cut through the soil with ease. Farmers snapped them up.

Abandoning blacksmithing, Deere concentrated on making and marketing his Grand de Tour Plow and an improved version called the Moline Center Draft Plow. Despite numerous competitors, he quickly dominated the field.

Deere & Company has been the world's largest maker of farm machinery since the early 1960s. Yet, notes Wayne G. Broehl, Jr., business history professor at Dartmouth College's Amos Tuck School of Business Administration, the firm relies on tactics its founder used when it was a one-man operation. The foremost tactic: close contacts with farmers.

"There was a symbiotic relationship between John Deere and farmers," Broehl says. Today, the company's continued rapport with farmers is good for sales—farm needs guide product development needs. "The Deere company spends more time with farmers and more money and effort on research and development than anyone in the industry," Broehl says.

Management often reminds today's employees of John Deere's dictums to his workers. A sample: "We have no special advantage which cannot accrue to any other company. The primary way we can maintain and advance our position is through better planning, design, engineering, fabricating, distributing, selling and servicing."

The roots of high-flying Delta Air Lines are in the soil, too. Collett Everman Woolman, a young Louisiana State University agricultural engineer, tried a new process called aerial crop dusting against crop-menacing boll weevils. He became an aviation enthusiast.

In 1925, at age 36, Woolman joined a newly formed company, Huff Daland Dusters. With Woolman at the corporate joystick, the Dusters' lone plane soon was joined by 17 others—at the time the largest privately owned aircraft fleet in the world. Because the company got dusting jobs only in sum-

Once small, they now are big. But they follow early precepts like: "Let's put ourselves on the other side of the ticket counter."

Its course charted by C.E. Woolman (inset; also, second from left), Delta Air Service, as it was then known, began hauling passengers in the South in 1929. Its aircraft, single-engine and fabric-covered, had grandiose cruising speeds of 90 miles per hour.

PHOTOS: DELTA AIR LINES

mer, Woolman began using his planes to deliver mail.

In 1929 he bought six-passenger, high-wing planes and began an airline route between Dallas and Monroe, La. Huff Daland Dusters had become Delta Air Service. Aided by two big mergers and after a Depression detour back to full-time crop dusting, the company eventually became one of the world's major air carriers.

Delta finally quit crop dusting in 1966, the year that Woolman died. But the firm has retained much of the early years' practices and management philosophies.

For example, a Woolman open-door policy for employees continues. So do the long, frank meetings every 18 months between top management and line workers.

The company still practices Woolman-advocated promotions from within. Present Chairman and Chief Executive Officer David C. Garrett, Jr., joined Delta in 1946 as a reservations clerk.

And Delta officials still refer to "C.E.'s Golden Rule." Woolman phrased that rule in different ways over the years: "People count first" is one of his mottoes circulated at Delta today. Also: "Let's put ourselves on the other side of the ticket counter."

Woolman believed in getting everyone involved in the company's goals; this Woolman saying is repeated to new employees: "The sales department is not the whole company, but the whole company can be the sales department." Judging from Delta's low ratio of consumer complaints, as recorded by the government, and its high ratings in independent polls of travelers, old ways still work.

The value of the tried and true is recognized, too, by officials of SSMC, Inc., which originated with Isaac Singer and his sewing machines. Comments one official: "Isaac Singer's spirit and techniques are still very much alive in our company."

In 1851 Singer worked at a Boston shop that repaired sewing machines—a busy place in those days when such machines broke down every few weeks. Singer stayed overtime to tinker. In less than a fortnight he devised the first sturdy sewing machine.

Or so the story goes. What is known for sure is that two years later he incorporated the Singer Manufacturing Company in New Jersey. Late last year, the company, which had expanded into aerospace and high tech electronics, announced it was confining its activities to those areas. Sewing operations—and a furniture business that began as a cabinet maker for sewing machines—were spun off to create SSMC.

An independent company, SSMC uses the Singer name—sometimes called the world's best-known trademark, after Coca-Cola's Coke—on its sewing products. SSMC is holding onto much more of the past than the trademark.

Isaac Singer relied heavily on large-scale installment buying—he is credited with introducing the practice—and SSMC does, too. He also relied heavily on door-to-door selling of sewing machines. More than 9,000 Singer "canvassers" practice it today in countries like Thailand and Malaysia, where it is the most effective way of merchandising. And, though the latest sewing products are laced with fancy electronics, the firm still sells its famed treadle-operated machines in locales where electricity is unavailable. As SSMC Chairman and Chief Executive Officer William F. Andrews puts it: "We're the oldest new company in the world."

What is the newest new company? The titleholder changes from minute to minute. An estimated 2,500 businesses are established each weekday in this country. Typically, their beginnings are humble—but surely no humbler than were those of some of the country's mightiest enterprises. NB

To order reprints of this article, see page 65.

MANAGING YOUR BUSINESS

Saving Energy

After a heady dip in price, oil is inching up again. That should prod companies into keeping up and improving conservation measures.

By Roger D. Roslansky

The price of a barrel of oil plunged from $28 to well under $10 last year, as members of the Organization of Petroleum Exporting Countries undercut each other while trying to maintain sales in the face of declining demand.

There was widespread speculation that market forces had eliminated OPEC's power to set prices. But the cost per barrel is now back up to $15, and OPEC members are seeking ways to bring it to $18.

Visions of endless supplies of crude at single-digit prices have faded, and many buyers are again thinking about conservation measures that had top priority while oil prices were soaring in the 1970s.

For companies of all sizes, the best time to install energy-conservation measures is the first time—when you are designing and building a new facility. Although advances in technology and changing needs may dictate renovation (retrofit) later, it will cost you much more then.

"If you leave an energy-saving item out of a new design budget and decide to retrofit later, you could pay 50 to 150 percent more," says G. Victor Smith, a principal with Advanced Engineering Services in Chicago.

One of the key guidelines for building an energy-efficient structure is to make the most of Mother Nature.

A building's four sides should be treated separately and yet blend harmoniously, with each related to the sun, the wind and the terrain.

"If the building is a rectangle, the long sides should face north and south to save energy," advises Lester A. Rosenberg, of Los Angeles, a vice president of Daniel Mann Johnson & Mendenhall, a large architectural and engineering firm.

The great outdoors comes indoors through glass, which has enormous esthetic value and admits welcome solar heat in winter as well as light.

Glass can be a plus or minus, depending on how it is used. Smith says its thermal performance can be as good as, or better than, a wall's if you provide exterior architectural features, such as overhangs that protect the glass from unwanted sun and interior insulation to reduce nighttime heat loss.

Roger D. Roslansky is president of HSR Associates, Inc., an architectural and engineering firm with offices in La Crosse and Madison, Wis.

Businesses are using conservation measures, like these heat-radiating water tubes at Riverland Girl Scout headquarters in La Crosse, Wis.

PHOTO: DONALD JOSLIN ENTERPRISES

Which brings us to the subject of daylight—a gift from nature that is free but challenging to control.

Areas requiring the highest levels of lighting, such as accounting departments and secretarial pools, should be located around the perimeter near the windows. Use lower levels of lighting in reception rooms and employee lounges.

Any building getting good natural light should have controls to dim electric lights as more daylight enters. You can also save energy by segmenting the building and providing adequate switches through the process known as zoning, which is superior to systems that cover a larger area but are controlled by only one switch. A new wrinkle in controls is ceiling-mounted infrared sensors that detect persons entering or leaving a room and turn lights on and off accordingly.

Skylights are great for admitting daylight, but Rosenberg warns that you should balance the savings they bring in electrical lighting against added cooling or heating costs incurred as a skylight admits sunlight that warms interior areas or increases exposure to cool air after dark.

"Depending on the occupancy of the building, you can have heating and cooling requirements 24 hours a day, while the daylight is for a relatively short period," he says. "Some skylights may require double-pane glass. And skylights leak if not properly installed."

Even when making optimum use of free daylight, we must consider ways to economize on electrical lighting, a major consumer of energy in commercial buildings.

Rosenberg estimates that lighting accounts for about 45 percent of the energy consumption; heating, ventilating and air conditioning, another 40 percent; and hot water for personal—as opposed to industrial—use, the remaining 15 percent.

To reflect light, use light colors on interior walls. If you use excessive indoor lighting, you pay the price by generating excessive heat. Such heat is more economically produced by your heating system in winter. In summer, that waste heat must be dispelled by your air conditioning system, which consequently works harder.

Whatever plans are made for energy conservation in new facilities, companies should remember that the results can be measured in hard dollars.

Robert J. Daley, managing partner of the accounting firm of Hawkins, Ash, Baptie & Company in La Crosse, Wis., puts it this way: "If you reduce expenses by $10,000 or generate $10,000 more through increased sales, either item is reflected equally in the bottom line." NB

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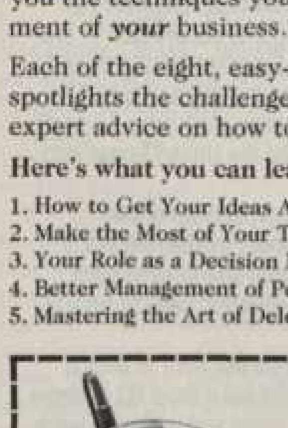

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EGYPT:
A Business Partner For America

Egyptian President Hosni Mubarak is promoting closer U.S. business ties.

Field Marshal Mohammad Abd El-Halim Abu Ghazala, Egypt's deputy prime minister and minister of defense and military production, recently addressed a large gathering of American investors in Washington. Here is an excerpt of the speech that was seen as a guide to a stronger Egyptian-American economic relationship.

We in Egypt firmly believe that cooperation and joint production to industrialize defense and other economic sectors is the right way to provide profits to you and benefit Egypt in strengthening its economy. Industrialization will help meet the mutual security needs of both Egypt and the United States in the region.

From 1955 to 1975, our industries were modeled on Soviet industries and were built with Soviet help. Since 1979, we have industrialized on an American model. As the transition for our economy continues, we want to produce some of the spare parts needed for our armed forces so we can better spend our military assistance on equipment that Egypt cannot produce. You can step in and we will both profit.

We in Egypt are in the process of implementing a major economic reform program. We recognize the need to shift our economy from a state-dominated one toward a more free-market economy. For you, this means that new government policies will promote the growth of private enterprise and increase the benefits of investment.

For us, your investments will mean that policy changes will lead to economic growth and to real benefits for Egypt's people. Again, the time for you to come in is now.

Another benefit for you is increased job opportunities. We will need American managers, Americans to run the training centers, American marketing managers to sell these products throughout the region. We do not want investment without people.

We want to instill American attitudes toward work and production in our people. We want American engineers to provide training and supervision in production facilities, and we want to send Egyptian managers and engineers to the United States to receive the same kind of training. We want to inject into the Egyptian work ethic some of the productive drive which has propelled the United States into the forefront of the world economy.

For ten years we have talked about Egyptian-American friendship — now is the time to talk about Egyptian-American partnership. I see real advantages for both countries in such a partnership. We take very seriously Americans' need to benefit. If you succeed, we succeed.

What can we produce together? We do not want to decide unilaterally: I have insisted that we do not set a fixed list of items that we want to produce. Instead I am ready and willing to work with you to find the right items. I want you to come to Cairo, look at our factories and work with us to determine that. To use your expression: *We mean business.*

MANAGING YOUR BUSINESS

Bad Backs: Pains In The Wallet

Back injuries cost billions of dollars a year in lost work. But relief is available.

By Richard J. Chapel

If you run a business, back pain has cost you money. You realize that, of course, if you have had a bad back, or one of your key employees has been laid up with one, because of the price in lost work and wages. But even if you have been spared such painful experiences, your insurance premiums reflect the cost of what is a national disorder.

Back pain is not a disease. If it were, we could consider it an epidemic. More than a million people in the United States are disabled by back injuries. And statistics compiled by Liberty Mutual Insurance Company indicate that 80 percent of the working population will suffer at least one episode of low back pain during their careers.

"This disorder is the most common cause of work loss," says Dr. John W. Frymoyer, who heads a University of Vermont center that specializes in rehabilitation of back pain sufferers. "The economic impact on the United States is estimated at more than $20 billion per year, with annual compensation costs alone amounting to $6 billion."

"I'll tell you how costly this disorder is," says Stover H. Snook, an official at Liberty Mutual Insurance Company's Loss Prevention Research Center in Hopkinton, Mass., which collects data on back pain-related compensation. "Liberty Mutual pays out $1 million per working day on back pain claims. That's why we are so interested in preventing back pain."

The problem appears to be getting worse. Snook says statistics indicate that "the rate of disabling back pain has grown 14 times faster than the population. While most low back pain cases are temporary, they are recurring. Once you have had a low back pain incident, you are four times as likely to have another one."

That fact has prompted industry to look to medicine for ways of predicting susceptibility to back problems and for means of dealing effectively with an injured back. Such ways and means have been hard to come by.

Despite an array of studies, causes of back pain remain elusive. According to Frymoyer, "No more than 50 percent of low back pain sufferers receive a precise diagnosis."

Richard J. Chapel is a Stamford, Conn., free-lance writer.

Ronald W. Porter (center), head of the Back School in Atlanta, says those painful back injuries are "lifestyle problems" that can be treated by attention to body mechanics, posture, fitness, and nutrition—how to lift, how to sit, how to sleep and so on.

PHOTO: T. MICHAEL KEZA

Given the difficulties in diagnosing causes, it is no wonder that there is little agreement over proper treatment. Physical therapy, pain medication, manipulation, traction, bracing, electric muscle and nerve stimulation, muscle relaxants and bed rest are among the commonly recommended treatments.

"Back injuries are lifestyle problems," says Ronald Porter, director of the Back School of Atlanta, which runs back schools all over the country. Physical therapists commonly teach at such schools, aided by physicians, psychologists and occupational therapists. Many schools provide primary education for businesses seeking relief from the costs and problems of back injuries.

"Our three-hour courses cover the anatomy of the back, what goes wrong with it and what to do about it," says Porter. "In addition, we recommend and teach a wellness program that involves posture, fitness, nutrition and body mechanics—how to lift, how to sit, how to sleep and so on."

Peter Rowan, personnel director for Hazlett Strip Casting Corporation in Mallets Bay, Vt., attended a back school conducted by Frymoyer's University of Vermont Rehabilitation Engineering Center. Rowan was looking for ways to reduce his company's back-related compensation costs. Since then, he has had the center analyze ways it could reduce low back problems among its 130 employees.

"Most people don't pay attention to preventive exercises or procedures until they hurt themselves," he says. "Then, they listen."

The Hazlett Corporation tries to avoid sending workers home when back injuries occur. "If they can do anything, we find a job for them," says Rowan. "Then we try to help the employee deal with the problem, perhaps through attending a back school." The company has adopted many of the center's recommendations for redesigning jobs to reduce their potential for causing back problems.

"We teach people to maintain the normal posture of the spine," says the Back School of Atlanta's Porter. "Generally, when you lose the curve in your

Office equipment companies are trying to develop seating that will relieve back problems. Steelcase, of Grand Rapids, used information developed by a back research center at the University of Vermont to create this chair, which maintains vital lumbar support while it adjusts to different body positions.

PHOTOS: STEELCASE, INC.

lower back, you run a high risk of back injury. That's why, when we talk about the proper way to sit in a chair or a car, we stress the need to support the lower or lumbar portion of the spine."

He points out that many new cars have adjustable lumbar supports and adds: "If not, a rolled up towel or small pad can do the trick."

Much of the University of Vermont center's work has been devoted to identifying high-risk factors in the workplace. Not surprisingly, lifting heavy weights is a major risk, but poor working postures and inadequate seating are significant as well. People who habitually slouch in desk chairs increase their chances of developing back pain, the center has found. And jobs that regularly require workers to maintain odd or uncomfortable positions may put them at risk.

Steelcase, Inc., a Grand Rapids manufacturer of office furniture, has used data the center developed to design a chair called the Sensor. Noe Palacios, Steelcase manager of office environment research, says the chair maintains vital lumbar support while it adjusts to different body types and weights and moves with the body to maintain blood circulation and muscle tone.

People spend 75,000 to 120,000 hours in an office during a lifetime, and most of that time they are seated," says Palacios. "It's not healthy, because your body is made for movement." The proper chair, he says, "may add up to 40 minutes of productive work per day per worker."

Office workers may face back problems resulting from too little body movement, but production workers, laborers and equipment operators often deal with the opposite.

"Vibration can cause physical damage to the spine," says Malcolm H. Pope, a codirector of the University of Vermont center. "Commuters who drive 20 miles a day run the risk of herniating a lumbar disc. The risk is even greater for truck drivers, whose occupation has the highest incidence of back injury." Pope says one solution may be a device that reduces vibration in a vehicle. Center engineers hope to develop one.

Vibration can also lead to muscle fatigue, says Pope. "If an equipment operator has to lift after prolonged exposure to vibration, his fatigued muscles may not be up to it. The result may be a back injury."

People in high-risk occupations, such as material handlers, nurses and nurses' aides, require specific job analyses to determine safe loads and lifting techniques. Liberty Mutual's Stover Snook, who says job redesign can reduce back-related claims by up to one third, makes these recommendations:

"First, determine the optimum work level to reduce unnecessary bending. Establish a good workplace layout to reduce unnecessary twisting and reaching. Have 'sit or stand' work stations to reduce prolonged time in one position. Also, match the weight of components and packaging to human capabilities. Finally, use mechanical aids when appropriate to assist with heavy weights and forces."

Surprisingly, some forms of training seem relatively ineffective in preventing back injury. Liberty Mutual has found just as many back injuries in companies that teach the so-called squat lifting technique, long thought to be the correct method of lifting, as in companies with no such training.

"Methods such as keeping the object close to the body and lifting slowly, smoothly and without twisting appear to be just as effective as the squat method," says Snook.

There is a common thread in all the approaches to preventing back problems: physical fitness. David G. Lehrman, chief of orthopedic surgery at St. Francis Hospital in Miami Beach, Fla., and director of the hospital's Spine Center, says that "exercise is the key to successfully preventing and alleviating back pain."

But exercise chosen should be of a type that does not cause or aggravate back pain. "The exercises we prescribe in our back school involve safe stretching and strengthening motions without twisting and bending the spine."

Typical is the pelvic tilt: You lie on your back, knees raised, a pillow under your head. Squeezing your buttocks tightly together, you pull in your abdomen, feeling your lower back go flat against the floor. You hold for a count of five and repeat.

Back schools, ergonomics, job redesign, exercise programs—there is no end to the efforts to do something about back pain. Does any of this work?

The answer is a conditional yes. Says Alan Morris, executive vice president of Back Systems, Inc., a Plano, Tex., consulting company: "If a program is effective in motivating employees to comply with the concept of reduction in spinal stress, there is strong evidence that substantial reductions in the numbers and costs of lower back injuries can be achieved."

Morris cites the experience of Capital Wire & Cable Company in Plano. "In the 24 months, back injuries had cost Capital Wire $191,549," he says. "In 20 months since implementing a back program, they have spent just under $7,000." NB

Benefits, Buffet Style

With flexible plans, employees can choose insurance coverage, leave time and child care allowance from a varied menu—and save employers money.

By Mary Allen

When Richard Ponder and several colleagues took over the closed and bankrupt East Bay Hospital in Richmond, Calif., they wanted to attract and keep the best possible employees. An innovative flexible benefits plan has helped them to do so.

PHOTO: ROBERT HOLMGREN

Too good to be true. To some smaller companies, that might be a fitting description of a benefits plan that employees can shape to suit their needs—and that holds down company costs.

But across America, increasing numbers of small and midsize companies are discovering that so-called flexible benefits plans are not a luxury available solely to the largest corporations—or those with the biggest budgets. Plans that provide choices among types of medical and life insurance and other options are now seen by many smaller employers as a way to solve some of their most pressing concerns. Those concerns include attracting the best talent, curbing spending, improving employee morale and increasing the value of compensation packages at little or no added company expense.

The key to any flexible benefits plan is choice, whether the options include a few levels of insurance coverage or many different kinds of benefits. At one time, most employees' needs were similar; today the work force is more varied and more demanding. By providing benefits choices, employers can equitably and cost-effectively meet employees' individual needs—from extended parental leaves to child care assistance to varied medical insurance.

For some employers, meeting employees' needs and increasing their awareness of their total compensation package is no small task. One such employer is the Master Chemical Corporation, in Perrysburg, Ohio. A written survey of Master Chemical's 120 employees showed that 70 percent considered the benefits in their traditional plan "below average"—even though the company was spending more than the national average.

"I didn't think throwing more money at the plan was going to improve it," says Treasurer Ron Sladky. "The demographics of our work force had changed, and people needed different benefits. We had to offer benefits more attuned to those differing needs." In April, 1984, Master Chemical set up an array of benefits choices.

Employees can choose among seven different medical insurance and health maintenance organization options. If they have medical coverage under another plan, they can waive this benefit entirely; they receive a benefits credit instead. Last year this credit was for \$175 worth of any medical expenses that the Internal Revenue Service says are tax-deductible. Other options include four different levels of life insurance, three levels of long-term disability, voluntary accidental death and dismemberment insurance, and optional reimbursement for dependent care and uninsured medical expenses.

The result? "I don't have to decide what is the best benefit for employees," says Sladky, "I just give everyone the choices, and they decide for themselves. Everyone really likes it that way. No one comes into my office any more complaining about their benefits. Instead, employees understand and appreciate what they are getting. After all, you can't choose benefits until you know what you're choosing."

Successfully communicating the options is a key part of setting up a flexible benefits plan and, says Sladky, is "probably the most difficult part of the whole flexible plan concept."

"We had a booklet written by a consultant who specializes in flexible plans," he says. "We also held a series of meetings with 20 to 30 employees at a time" in which the value of various options was explained. Employees experimented with trial selections of benefits. The sessions were videotaped for absent and future employees.

Although reducing costs was not the primary motive for starting a flexible benefits plan, the company has saved far more than it invested in the plan. Partly, this is because the company self-insured its medical coverage. Costs for the "flex plan" totaled \$10,000, with \$2,500 going for communication materials, \$6,500 for consulting services and \$1,000 for computer programs and forms. Savings generated from the combination of flexible benefits and self-insured medical coverage totaled \$47,000 for 1984 and \$65,000 for 1985.

In addition, the administrative load

Mary Allen is corporate programs associate at Catalyst, a New York-based advisory organization that helps corporations foster career development of women.

has been minimal. Although no Master Chemical employee chose a plan exactly like the original package, Sladky says it takes the plan administrator only two to three days each year to sort out all 120 employees' annual selections, plus a half-day each month to administer the plan, which includes paying the premiums and doing any paper work involved. "Under our old plan, it took a half-day a month to pay premiums and make rate changes," says Sladky, "so the only real difference is the two- or three-day annual enrollment work."

Cost control attracts other smaller employers. At the San Antonio Development Agency, for example, medical insurance premiums rose 5 to 18 percent each year from 1980 to 1985. The local government agency, which specializes in low-income neighborhood revitalization, then offered each of its 45 employees a fixed number of dollars to spend on benefits and let each decide how those dollars would be spent.

Says Business and Project Manager Robert Clayton: "Now the agency isn't locked into paying more for benefits each year. If a benefit's price increases, employees are the ones to decide whether they will choose a less expensive benefit or make up the difference in cost from their own salaries."

Like many flexible plans, the San Antonio agency's has a handful of requirements and many options. All employees must take some medical insurance, life insurance and disability insurance, but they are encouraged to choose among a variety of deductibles and coverage levels. Life insurance for a spouse and dependent children is also available, as are two dental insurance plans.

Employees who opt for certain additional benefits or more costly selections than their benefits budgets allow are enabled by government regulations to cover the added expense with untaxed dollars from their own salaries. The agency subtracts these expenses from the employee's total salary and withholds taxes on a lowered gross income. Dependent care expenses and uninsured medical expenses can also be paid for legally with untaxed salary dollars as long as employees declare at the beginning of the plan year how much they will spend on these expenses. Employees who choose this option are taxed on a lowered gross income as well.

Thus, when the agency's dental insurance premium increased in 1986, the organization could continue to offer dental coverage to employees as one option. Though employees must use $5 more of their benefit dollars per month to get the coverage, the agency is only paying $2 more to include it in the plan. By passing this cost on to employees, the agency saves a total of $225 per month. And while the agency has been able to put a cap on its benefits expenditures, employees feel they are getting a better plan. Says Clayton: "Employees like the idea of being able to choose what's best for them."

Other smaller employers adopt a flexible benefits plan because it expresses a particular company philosophy. When Richard Ponder and several colleagues took over a closed, bankrupt hospital three years ago in Richmond, Calif., they wanted to build strong employee relations so they could attract and keep the best recruits. A successful East Bay Hospital innovation has been a flexible benefits program.

Each employee is given a monthly credit of $350 to use toward benefits, or a total of $4,200 for the year. At the beginning of each calendar year, the employee shops from a benefits menu that includes medical and life insurance plans, child care, additional life insurance and group legal services. A worker covered by a spouse's medical plan can forgo coverage under the company's medical plan and choose, for example, the equivalent dollar amount in child care instead. Executive Director Ponder explains that "75 to 80 percent of our employees are women, many of whom are covered under an employed spouse's insurance plan. We didn't want to require that they duplicate that insurance and thereby waste it."

East Bay employees not only decide among insurance benefits, but they can also allocate vacation, sick leave and holiday time. All this leave is combined into one "paid time off" account; employees decide when and how they will use it—within certain parameters. They must use paid days off for some legal holidays and at least five consecutive days for rest and relaxation purposes, but they can exchange some of their

Benefits, Buffet Style

Ron Sladky (center), treasurer of Master Chemical in Perrysburg, Ohio, introduced flexible benefits to his firm when a survey showed that employees did not believe their traditional benefits plan met their needs. The flexible plan met those needs without costing the company any more than the traditional one.

PHOTO: HERRAL LONG

paid time off for other benefits. A healthy employee who has taken few days off for illness might decide to use paid days off to pad the vacation allotment for that year. An employee who does not want a lengthy vacation might trade in some paid days off and receive their equivalent in cash.

A result: East Bay employees do not feel they need to beat the system in order to get the full value of their benefits. Says one: "I really love the paid time off program; if I want to take an additional day away from work, I don't have to call in sick."

Because employees find the plan so satisfactory, East Bay's human resources staff can successfully compete with the many other hospitals in the San Francisco area for the best new talent. "Offering flexible benefits gave us a distinct advantage in staff recruitment," says Ponder, "even though our location and physical plant can't compare with other facilities in the area."

The hospital's payroll administrator spends just 12 to 15 hours per month maintaining the plan's records. Moreover, East Bay's insurance premiums have been kept low in the three years since implementation of the plan, in part because employees are given cash incentives not to use their insurance frivolously. For example, employees might choose to take a less expensive health insurance plan with a high deductible in order to spend more of their benefits dollars on other benefits or keep the savings in the form of cash. Since their deductible is high, however, employees think twice before using this insurance.

What enables these employers to set up flexible benefits plans and administer them so easily? Some have found it advisable to get a skilled consultant and an experienced insurance company to help set up the plan, communicate it to employees and devise administrative systems to keep it running smoothly. Others have assigned their staff benefits administrator to work with a top-notch broker, accountant or lawyer to figure out details of implementing the plan and maintaining records.

The planning process requires a substantial time commitment in order to reap long-term gains. BGS Systems, a 155-employee computer software company in Waltham, Mass., considered the possibilities for nine months before implementing a plan. The company's broker and insurer both helped design the plan and introduce it to employees. BGS' management reports that the plan's advantages for employees and the company far outweigh the time and effort it cost in those early stages.

Ted Kelly, BGS human resources director, says: "We found that for the same amount of money, we could increase the value of our benefits." Through the new plan, for example, 40 percent of BGS employees are paying for child care expenses—which can add up to thousands of dollars each year—with untaxed salary dollars. This translates into sizable savings for employees, who also benefit if they have medical coverage elsewhere and decline coverage under one of BGS' plans.

For simply opting to use the spouse's coverage, an employee is entitled to a $300 cash bonus. Providing bonuses of this kind helps BGS cut its benefits costs, since the company's investment would be greater if the same employee had used one of BGS' medical insurance plans.

If employees decide to receive BGS' medical insurance, however, they are invited to choose between a plan with first-dollar coverage or one with a deductible and co-insurance, meaning that medical costs are shared by the employee and the insurance company. Life insurance options include coverage of up to three times an employee's salary.

What does the future hold for flexible benefit plans? Experts, including W. Brian Harrigan, a vice president of Johnson & Higgins, a benefit consulting and insurance brokerage firm, are optimistic. Says Harrigan: "The number of flexible benefit plans will grow in geometric proportions each year for two simple reasons: spiraling benefits costs and diverse employee needs. Flexible benefits are the most appealing way to deal with both of these issues at the same time." NB

Want To Learn More?

Catalyst has published a 139-page handbook for smaller employers entitled, *Flexible Benefits: How to Set Up a Plan When Your Employees Are Complaining, Your Costs Are Rising, and You're Too Busy to Think About It.* For more information, write to Catalyst at 250 Park Avenue South, New York, N.Y. 10003, or telephone (212) 777-8900.

To order reprints of this article, see page 65.

MANAGING YOUR BUSINESS

Direct Line

Information about marketing, car leasing, getting a wholesale license and clipping services.

On-Target Marketing

I provide computerized monthly billings for doctors, lawyers and psychologists. I have tried sending out advertising letters with samples of some of the statements, but I have had no response. All my new clients have been from referrals.

I know this is great, but I do not feel I am growing fast enough. How can I reach my market?

I have tried the direct mail approach, and I have scanned want ads by sole practitioners looking for office help.
R.S., San Antonio

Professionals tend to be busy and cautious, says one marketing expert, Peter Salwen, senior associate at Warren Weil Communications Counselors in New York.

To get professionals to buy your service, you first have to get their attention—and confidence.

Review your direct mail package. Is it clear and to the point? Does it explain the benefits to the users? Do you support your claims with figures or testimonials? Do you include a response card that makes it easy to get back to you?

Besides direct mail, some of your business-getting efforts should be face-to-face or by telephone, Salwen says, and he suggests indirect ways, too, of reaching prospective clients.

You might write an article or two for appropriate professional journals, and you could get in touch with the local medical and bar associations to offer a talk or seminar.

Such ploys demand time and effort, but they cost less than an equivalent advertising campaign and can pay handsomely, Salwen says, in visibility and stature.

Buy Or Lease?

I am considering leasing a new car instead of buying one. I am a salesman, and much of the car's use will be for business. What are the tax considerations of leasing a new car, as opposed to buying one?
S.H., Sarasota, Fla.

There are many complicated tax rules regarding business use of a personal car, says Glenn Mackles, a tax partner at Touche Ross & Co. in Washington. That tangle extends to the choice you make between owning or leasing.

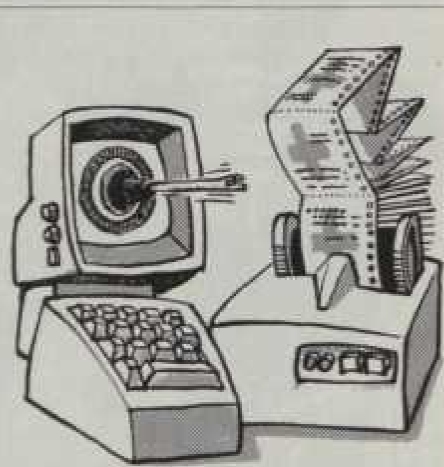

ILLUSTRATION: WILLIAM COULTER

Your decision should be based on the price of the car, how much it is used for business and how much you can save in taxes by owning versus leasing. Even the time of year you plan to get the car affects the decision to rent or buy. "All the variables are not going to make the results come out the same way for any two people," says Mackles.

Further complicating the matter, of course, are the revisions of tax law. Unless you can analyze tax law as spelled out by the Internal Revenue Service, Mackles suggests you contact your tax adviser on the matter.

Safety In Numbers

I heard something about a risk retention act just signed by the President. I'm having trouble getting insurance. How do I join a risk retention group?
M.R., Cheltenham, Pa.

The Risk Retention Act Amendments of 1986 allow trade associations to form insurance pools for specific kinds of risks. These pools must be specific to a particular industry and are limited to commercial liability risks, as opposed to property insurance, workers' compensation, etc.

Check within your industry to see if such a group has been formed, or have your trade association talk to an insurance broker about possibly forming one. Existing groups have found this a partial solution to the problem of getting insurance coverage, but it does not seem to reduce insurance costs, says Marc H. Rosenberg, a vice president of the Insurance Information Institute in Washington.

License To Sell

I am trying to get a wholesale distributor's license to market tobacco. I would appreciate any information on how to get started and whom to contact.
S.E.K., Montgomery, Ala.

There are no federal licensing requirements. If you want to sell tobacco products wholesale in Alabama, you must fill out an application for a stamping permit and send it to the Department of Revenue, Miscellaneous Tax Division, Tobacco Tax Section, P.O. Box 707, Montgomery, Ala. 36130. You must attach copies of letters of intent from manufacturers stating that they will sell their products to you. You must also have a business license, which you can obtain from the Montgomery County courthouse.

Fact Tracking

I am planning to start a newsletter and am interested in subscribing to a clipping service. How can I find the right clipping service for my needs?
G.A., Laureldale, Pa.

There are many different types of clipping services that specialize geographically and by topic. One service user, Sherra McLeod, public relations assistant for The Humane Society of the United States, recommends the book *Professionals' Guide To Public Relations Services*, by Richard Weiner, as a comprehensive directory. For purchase information, contact Public Relations Publishing Company, 888 Seventh Avenue, New York, N.Y. 10106.

How To Ask

Have a business-related question?

Write to: Direct Line, NATION'S BUSINESS, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space. All replies must be given in this column.

JAPAN

JAPAN

Shared Destiny

The economies of Japan and the United States are becoming so interdependent that trade protectionism against Japan is no longer an option Washington can choose without causing damage to American business.

If the new Democratic-controlled Congress reacts to Japan's growing trade surplus by restricting Japanese imports, there would be a boomerang effect imperiling countless Japanese-American joint ventures, tie-ups and licensing and financial arrangements that are generating billions of dollars and hundreds of thousands of jobs in both countries.

Kenichi Ohmae, a Tokyo-based managing director of McKinsey & Company, a management consulting firm whose clients include many of the world's biggest multinational companies, says protectionist actions affecting the relationship between the Free World's two leading economic powers would be suicidal.

Japan's merchandise trade surplus with the United States tells only part of the story. According to a McKinsey survey, Japan imported $25.6 billion in merchandise from the United States in 1984. But it bought another $43.9 billion in goods produced by U.S.-affiliated firms in Japan.

The same year, Americans imported $56.8 billion in merchandise from Japan. And they bought another $12.8 billion worth of goods Japanese firms produced on U.S. soil. The bottom line: Japanese bought $69.5 billion worth of goods from American companies, and Americans purchased $69.6 billion from Japanese firms.

A U.S. Commerce Department trade study released last October says: "U.S.-Japanese economic interdependence is very large and growing."

Formation of Japanese-American joint ventures, partnerships and other types of business relationships is a widening trend. General Motors owns 38.6 percent of Isuzu and 5.2 percent of Suzuki. GM and Toyota jointly own New United Motor Manufacturing, a California-based Chevrolet Nova manufacturer. Ford owns 25 percent of Mazda. And Chrysler owns 24 percent of Mitsubishi Motors; they also are equal partners in Diamond Motors, a new small-car producer in Illinois.

At the high tech end of the industrial spectrum, there are strong business ties between Honeywell and NEC, IBM and Matsushita Electric, General Automation and Koyo Electronics, Hewlett-Packard

The bright lights of Ginza shops herald some American products as well as those of Japanese firms.

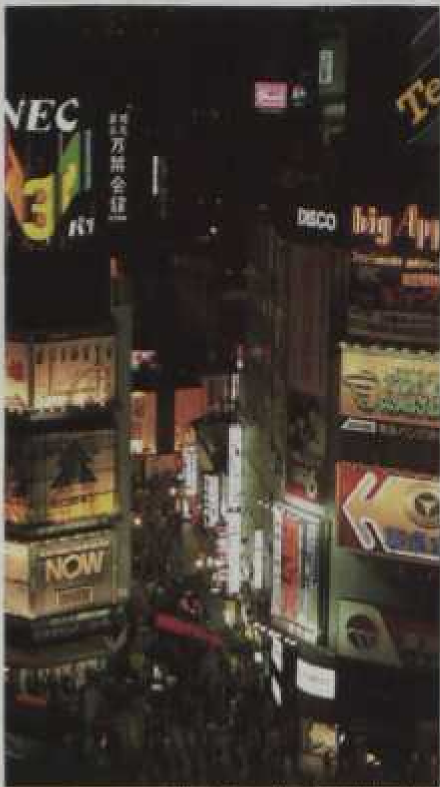

PHOTO: PAUL CHESLEY—PHOTOGRAPHERS ASPEN

and Yokogawa Electric, TRW and Fujitsu, NASCO and Hitachi, Data General and Kozokeikaku Engineering, and Sperry Univac and Oki Electric, to name a few.

Japan has a big stake in America's prosperity. Nearly 30 percent of Japanese exports are closely linked to U.S. business activities. Either these exported goods are made in Japan by American-owned firms or under licensing agreements authorizing Japanese companies to make goods with American brand names, or they contain American components.

According to the Japan External Trade Organization, the number of instances of industrial cooperation between Japanese and American firms rose from 390 in 1984 to 652 in 1985. Of these, 448 involved joint developments of products or services, including technology exchanges.

More than a quarter of a million Americans work for Japanese-owned companies based in the United States. Ironically, these U.S.-based Japanese companies contribute more than 11 percent of America's exports abroad.

Ten percent of America's imports come from Japan. Japan buys more than 20 percent of the United States' food exports. After Britain and the Netherlands, Japan is the biggest direct investor in the American market, with $5.3 billion in 1985.

Numerous American firms have made big inroads into the Japanese market. Their success there depends on the continued prosperity of our biggest trading partner after Canada. For example, Schick has 70 percent of the razor market in Japan, Coca-Cola 60 percent of the soft drinks market, IBM 30 percent of computers, Xerox 23 percent of photocopiers and Kodak 11 percent of photographic film.

Prime Minister Yasuhiro Nakasone has committed his country to stimulating its consumer demand and generally throwing open its doors to foreign goods in a national campaign to reverse Japan's export obsession and enable its people to enjoy more of the fruits of their labor.

The government of Japan, of course, cannot simply order companies to change their way of doing business. Japan is a democracy. Japanese firms are, however, showing signs that their strong export tilt must be moderated by shifting more resources to developing domestic sales. Top Japanese business leaders say they will adapt to changing world trade circumstances.

Hitachi President Katsushige Mita embraces Nakasone's reform proposals, particularly those that stimulate Japan's domestic economy. Mita recognizes that the rest of the world cannot continue to accept mounting Japanese trade surpluses. His company intends to expand its involvement with foreign businesses, particularly in the United States where Hitachi investments provide thousands of jobs and a great deal of work for local suppliers.

In Los Angeles, American workers are producing a variety of consumer electronics goods under the Hitachi label. Americans are making Hitachi auto parts in Kentucky and Hitachi semiconductors in Texas and will soon be producing Hitachi computer equipment in Oklahoma.

Hitachi's Mita says also that "Japan has got to promote the purchase of more U.S. goods. We at Hitachi have sent busi-

Japanese truck and auto makers and their U.S. counterparts have many financial relationships. And many Japanese firms invest in America, like Nissan did in Tennessee.

ness missions to buy goods in America. Last year Hitachi bought more than $420 million worth of American goods, a 19 percent increase over the previous year."

Toshiba Corporation Managing Director Kiyohiko Kasuya agrees that joint ventures and other forms of business relationships with American firms help create a more harmonious trade climate with the United States. Toshiba will soon begin manufacturing color picture tubes with Westinghouse in Elmira, N.Y. Toshiba will provide the technology; Westinghouse will supply the facilities, employees and management. The two companies will share the profits on a 50-50 basis.

Toshiba also has a joint development project with United Technologies to produce a new fuel cell for industrial use. In addition the high tech firm has cooperative relationships with General Electric, LSI Logic, Cummins, 3M and ITT and AT&T.

"Many Americans do not know the extent of the interrelationships we have with U.S. firms," says Kasuya. "I think these interrelationships are a good thing and a natural necessity for the development of

PHOTO: NISSAN MOTORS

industry. Neither country can do everything. We have to cooperate to be successful. We can be very efficient with joint developments and avoid duplication. We can save fixed costs and mutually utilize advanced technology. For mutual benefit, we like to have tie-up arrangements with foreign companies."

Sanyo Electric Company and Sears jointly own and operate a plant in Arkansas that produces televisions, microwave ovens and furniture. Sanyo Director Takao Tominaga says the rise in the yen's value will drive more Japanese companies to invest in the United States so they can be closer to their market. Says Tominaga: "In the long run and the short run, we can see that there is hope for easing trade frictions by increasing the interrelationships between American and Japanese firms."

The Marubeni Corporation is particularly sensitive to the global import-export climate. It is a trading company that buys goods and services for the Japanese market from hundreds of suppliers overseas, as well as selling Japanese wares abroad. For example, a joint venture it has with Dairy Queen has introduced that custard and hamburger franchise to more than 200 locales in Japan. Marubeni also sells a half million pairs of Hush Puppy shoes annually.

The company is responsible for selling millions of dollars' worth of American products in Japan and in third markets: Alaskan salmon and herring, snowmaking machines for ski resorts, data processing and communications systems, freeze-dried instant coffee, bourbon, beef, potatoes, corn, wheat, mobile telephones and much more.

Toshimichi Tanaka, Marubeni's senior managing director for international planning, says his company is always on the lookout for new foreign products to offer Japanese consumers and businesses.

"We can make the trade situation better in the future," says Tanaka. "We would also like to work more with U.S. companies in the Third World where we can share resources." Already, Marubeni is a major co-investor in dozens of companies in the United States in the electronics, agribusiness, energy, automotive and textiles fields.

The Industrial Bank of Japan is at the crossroads of numerous Japanese-American business transactions. Says Managing Director Hideo Ishihara: "We see our two economies increasingly interrelated." He says there is an upswing in American investments in Japan, a trend he expects to continue. "There is two-way traffic and closer cooperation between our two countries that is developing very rapidly."

In the great trade debate anticipated in Congress next year, it is important, says Ishihara, for Americans to realize that "not everything is rosy in Japan. We are regarded as a success, but we have horrendous problems." Among them, he notes, are a national debt that is proportionately


Whitman's
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larger than America's and tremendous living costs, with land priced 44 times higher than in the United States.

Toyoo Tate, president of Mitsubishi Motors Corporation, says his company's strong ties with Chrysler are evidence that Japanese and American firms can work well together. But Tate acknowledges that business-to-business relationships alone cannot solve trade frictions: "In order to decrease trade frictions, every effort must be made to increase domestic demand in Japan and to decrease Japan's trade surplus."

The Kikkoman Corporation is an ideal example of a firm whose activities benefit both Japanese and Americans. Kikkoman buys American wheat and soybeans, uses them to manufacture soy sauce in Wisconsin, then sells the finished product in the American market.

It also buys numerous brands of American-made foods and sells them directly in Japan.

In electronics, Japanese and American technology and dollars flow into many joint ventures, helping both nations.

PHOTO NEC CORPORATION

Yuzaburo Mogi, Kikkoman's managing director, is proud of his company's close relationship with American business and can say honestly that Kikkoman is engaged in no trade friction with Americans. Nonetheless, Mogi is concerned about bilateral economic relations and says other Japanese firms should protect themselves from the trade storm by forming business ties with companies in the United States.

"Most Japanese leaders know that we have to change," Mogi says. "Japan is a group of small islands. We don't have enough raw materials. We have to depend on the world community. In order to be a good member, we have to change."

Joseph Grimes, president of the American Chamber of Commerce of Japan and a vice president of Honeywell in Tokyo, says most U.S. companies operating in Japan are concerned that Congress might enact protectionist legislation that could indirectly damage their activities.

He says the Japanese are responding to American complaints. "They realize," says Grimes, "that it is unhealthy for them to run such huge trade surpluses.

"It took the Japanese 20 or 30 years to build this export juggernaut. It's like turning a supertanker. Nobody notices it's turning for the first few miles."

A great deal is at stake for both the United States and Japan in the coming trade debate in Congress. It will be a time for brass-tacks analysis, instead of emotional rhetoric. Any meat-ax applied to Japanese exports will clearly affect American business and labor almost as severely as it will companies in Japan. NB

Foreign Minister Urges Harmony

Japanese Foreign Minister Tadashi Kuranari, in an interview with Nation's Business, *says his nation and the United States need to cooperate on trade:*

Despite economic frictions, the United States and Japan are becoming increasingly interdependent. The United States is Japan's largest trading partner, and Japan is the United States' second largest (after Canada). Japanese direct investment outstanding in the United States was $25 billion at the end of 1985, generating an estimated 240,000 jobs.

Going the other way, American investment outstanding in Japan has recently picked up until it now totals nearly $10 billion.

These strong bonds of trade and investment, I think, give the lie to people who look only at the trade imbalance and superficially conclude that Japan is somehow a closed market, indulges in unfair trade practices or maintains an array of invisible trade barriers. The relationship is much deeper and broader—and much better—than the trade figures alone would indicate. It is, I assure you, not all friction. I hope that there will be continued balanced expansion in trade and determined efforts to stop protectionism.

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LESSONS OF LEADERSHIP

Building Up, Spreading Out

By Del Marth

When God made Herman J. Russell, He made, says Russell, "one of the finest human beings on earth.

"But then," quickly adds the 55-year-old Atlanta construction executive, "whoever you are, you must believe that when God made you, He produced one of the finest human beings on earth. You can't be successful if you don't believe that."

Some less-affluent folks in Atlanta—and elsewhere, for that matter—may have exalted self-images, too, but it does not materially affect their lives. It does work for Russell. Proof of the effects of his self-confidence is scattered around Atlanta—dozens of opulent office buildings and more than 7,000 apartments built by H.J. Russell & Company.

Revenues in 1986 topped the $118 million of the year before. That makes the company, which employs more than 500, the third largest black-owned enterprise in the United States, behind the Los Angeles entertainment giant, Motown Industries (No. 2) and Chicago's Johnson Publishing Company.

"Herman has tremendous influence in Atlanta," says Mayor Andrew Young, for whom Russell has raised campaign funds. "But I think the secret of his strength is that he uses it only when absolutely necessary."

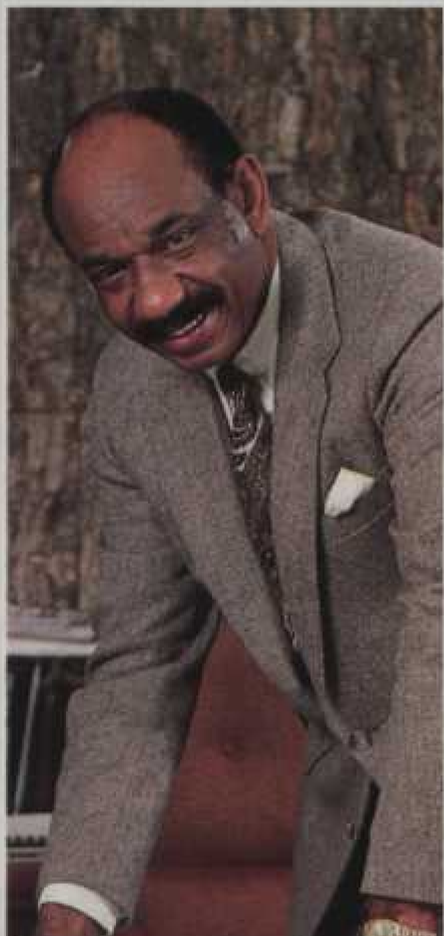
Those occasions are when Russell sets out to achieve, in his words, "economic status, an equal chance, a place in the sun" for blacks. His vehicles are scores of civic organizations. He has been president of the Atlanta Chamber of Commerce, for example. But, he says, "I won't be a member of any organization that just wants a black face. I don't have time to be window dressing for anybody."

H.J. Russell & Company serves today as an umbrella firm for 10 other corporations, most of them spun off over the years specifically to handle activities related to building.

Russell's personal fortune is estimated to be more than $10 million. How much more? "Money is just a means of getting some things you want out of life," he says, shrugging off the question. "Peace of mind, that is what makes you rich."

He has always had it, he says, despite

Herman Russell, of H.J. Russell & Company in Atlanta: "I don't have time to be window dressing for anybody."



PHOTOS T. MICHAEL KEZA

being one of eight children reared in Summerhill, a seamy inner city ghetto of Atlanta. In his impoverished courting days, he would take his girlfriend, now his wife, to formal dances; he drove an old pickup truck, the same one he used to haul ladders and tools to plastering jobs. "For her, in a long evening gown, it was embarrassing to arrive in an old pickup," he says. "So I would park two blocks away."

Nowadays, he and Otelia Russell motor to formal social events in a Mercedes. But for work, Russell's habits have changed little. He drives an older, sun-bleached Oldsmobile to the office, a tidy but unpretentious two-story brick building that Russell chose to build in the Summerhill area. It shares an intersection with unauthorized dumps on two corners and, kitty-corner, a hamburger stand.

In his windowless office, Russell is "at home" with walls covered by award plaques and photos of him at the White House with three past Presidents.

"I don't think I'm married to the company, but my wife does," he says. "I can't wait until the next day to get up and go to work. I would come into the office even if they didn't pay me."

He works 12 hours a day, six days a week. Even in high school, before he had an office and a business, Russell looked forward to working. He bought a lot in his neighborhood for $250 and with friends built a duplex on it. A year later he sold the building for $12,500. It was a beginning.

In 1949, with only enough tuition to pay for half a semester, he enrolled in Tuskegee Institute in Alabama to study construction. He made it financially to graduation in 1953 by working as a weekend plasterer.

Back home, rattling around the streets in his old pickup, Russell hired a helper and started a plastering business. When his father, who also owned a small plastering business, died in 1957, he took over. In 1959 the combined businesses, operating out of Russell's home basement, became H.J. Russell & Company. In the 27 years since then it has never had a losing year.

"All my success is built on hard work and being more than willing to tackle any job," Russell says. But he recalls craving still another business asset in his company's early days: self-sufficiency. As a subcontractor, he did not like being dependent on other contractors.

So he used his profits to buy small parcels of land, hire carpenters and masons and roofers, and build small apartment buildings. When the buildings were completed, he organized in late 1959 his first spinoff corporation—Paradise Apartments Management—to

Herman J. Russell's construction company has become the third-largest black-owned firm by competing with solidly established firms head-to-head.

Russell's company is a parent to several subsidiaries, including a real estate investment and development company headed by Noel K. Lalil (right). Russell says he hires the best managers he can: "I don't want anyone around me who isn't 10 times sharper than I am."

manage them. "I always looked at the chance of one hand feeding the other," he says.

Joint venturing with larger, more substantial companies on major projects also furthered Russell's goals. "We would never have been able to work alone on the Georgia-Pacific corporate headquarters," he says, speaking of that 52-story tower in Atlanta. "We did not have such expertise. But joint ventures gave us the opportunity to work with experts in other fields."

Russell likes the story told about him by Robert Holder, who, as chief executive officer of a large Atlanta construction company bearing Holder's name, has worked with him on several joint ventures. "On our first project with Herman, an Atlanta office building for Delta Air Lines," says Holder, "our attorneys listed the name as 'Holder-Russell Construction Company, a joint venture.' Alert to racial issues, I asked him if he would prefer that we listed his name first.

"He replied, 'I'll tell you what: If you'll give me 10 cents more of the profit, you can take my name out of it altogether.'"

Such joint ventures, says H.J.Russell & Company Vice President Richard Bolton, led to the company's growth: "The joint ventures were a learning experience for Herman. He would hold up his end of the contract by bringing his money and knowledge to the job, but he always learned from the larger, more established businesses. So we would come away from those jobs with enough experience to form another company to do that work the next time."

As a result, corporations today under Russell's umbrella firm include not only seven varied construction, building management and land development companies, but also Concessions International. It was organized after Russell, while a contractor at airport expansion projects, saw a profit opportunity in operating food and beverage concessions at airports. Today the concessions company is in airports at Orlando, Fla.; Cleveland; Hartford; Newark, N.J.; Seattle; Chicago; Dallas-Fort Worth; Los Angeles and Washington.

Russell's two other corporations are a distributor of alcoholic beverages and a Macon, Ga., television station.

"If you have the expertise to manage," he says, "then you can manage anything—a newspaper, a TV station, a restaurant chain, you name it. The function is basically the same for any business."

As a result, he strives to hire the best managers he can find. "I don't want anyone around me who isn't 10 times sharper than I am."

That speaks well of Egbert Perry, one of Russell's top managers for six years, who returns the compliment: "Herman has not made it as a favored minority contractor given public sector jobs; he has made it in the private sector, bidding head-to-head with older and more established firms."

For a onetime plasterer who has sired and bred an entrepreneurial stable of profitable corporations, it is an achievement that Russell will someday step away from and savor:

"I now have the satisfaction of having seen my one-horse company develop into an institution. I don't want to be president of any of these companies 10 years from now." His three grown children are either well-placed in the company or in training for their responsibilities.

"I'm thinking of spending more time at a beach home I've bought in Florida, on Sanibel Island," he says.

Without Russell Atlanta will not be the same.

But then, with such Russell-stamped projects as the Hartsfield International Airport, the Atlanta Gas Light Service Center, the Georgia Power Company headquarters building and the Coca-Cola Company office tower, Atlanta already is not the same. NB

COMMENTARY

Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

ISSUE	BUSINESS IMPACT	BUSINESS MESSAGE
Product Liability	Coupled with excessive jury awards to plaintiffs, state product liability laws making each defendant potentially liable for all damages, regardless of fault—so-called joint and several liability—have produced a business community crisis. Insurance costs have escalated. Often, insurance is not even available.	Members of the House and Senate: Support reform legislation that would eliminate joint and several liability and return product liability law to a fault-based system. These two changes would ensure that insurance is available and affordable.
Budget Reform	Record federal budget deficits—the fiscal 1986 figure was $220 billion—affect financial markets and, in turn, business investment decisions. Business could benefit from changes in a budget process that has produced huge deficits year after year. Adoption of a permanent requirement for a balanced budget—a constitutional amendment—and other budget balancing mechanisms would help create stability and facilitate business planning.	Members of the House and Senate: Replace one-year budgets with two-year budgets, making more efficient use of congressional time; require that Congress act on presidential requests not to spend appropriated funds; restore and perfect the Gramm-Rudman-Hollings law's court-killed automatic across-the-board spending reduction mechanism; and allow the President a line-item veto on appropriations bills instead of forcing him to accept all or none of a bill. Also, support a constitutional balanced budget amendment.
Trade Reform	Trade-restrictive legislation could lead to severe damage to the U.S. economy and the world trading system. However, business could benefit from extending the President's trade negotiating authority and reducing foreign unfair trade practices.	Members of the House and Senate: The President's negotiating authority should be extended without imposing excessive conditions. Trade legislation should be designed to improve U.S. companies' access to foreign markets and reduce unfair trade practices by other countries.
Parental/Disability Leave	The voluntary, private sector employee benefits system is threatened by a drive for government-mandated benefits. Employers may be forced to provide 18 weeks' unpaid leave for employees with newly born or sick children—or with sick, elderly parents—and 26 weeks' unpaid disability leave. Supporters of mandated leave benefits also want to establish a government commission to recommend ways to require paid leave.	Members of the House and Senate: Oppose mandating parental/elder care and disability leave and other employee benefits; maintain the present highly successful private sector benefits system. Managers must have the right to manage—to offer affordable benefits that reflect their employees' preferences.
Health Care Coverage	Businesses with more than 20 employees are required by a law signed last April to provide up to 36 months' health care coverage for former employees and their families. Already, supporters of this government-imposed benefit want to make employers pay for the continued coverage.	Members of the House and Senate: Oppose proposals to make employers pay for continued health care coverage for former employees and their families. Such measures, if passed, would discourage employers from providing health care insurance coverage.

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Personal Management

It's Your Money

By Ray Brady

An Open Guessing Game

If you are going to play that annual, start-of-the-year game of guessing what is going to happen to the stock market over the next 12 months, talk to Ray DeVoe, a top-rated economist at the investment house of Legg Mason Wood Walker.

DeVoe frankly doesn't believe in predictions very much. Take all those earnings projections you see at this time of the year—the kind that say the XYZ Corporation will show earnings of $2.87 a share, up from $2.24. DeVoe refers to them as the "Next Year Up 20 Percent Syndrome."

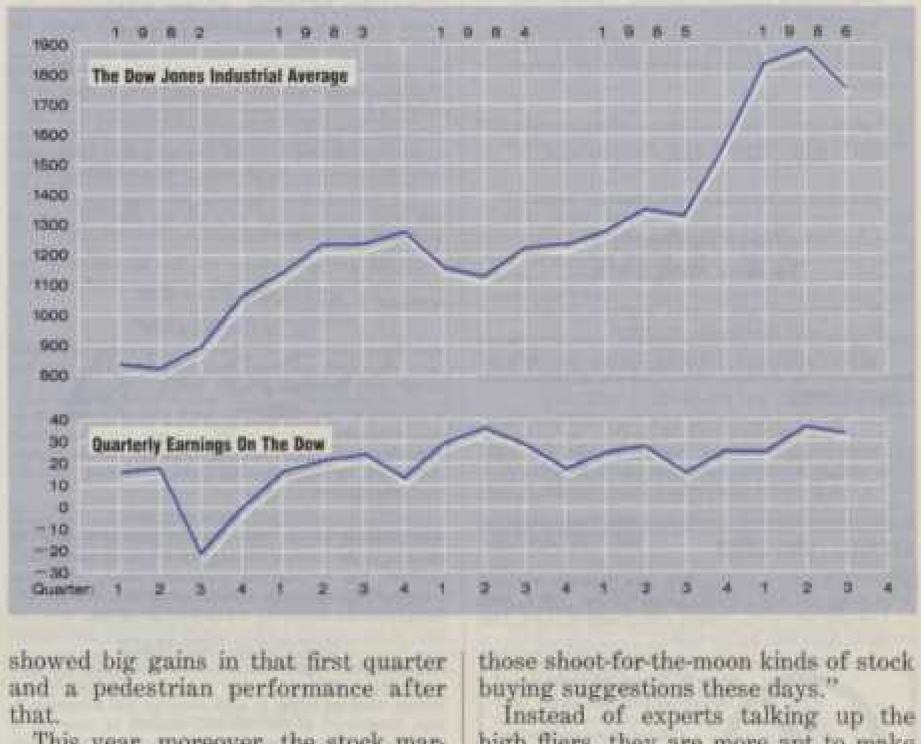
His point: "There is a tendency—and an incentive—for making these estimates look good." The tendency, of course, is the natural inclination to make things appear in a favorable light. The incentive is simple: A bullish earnings estimate on a company makes its stock look all that more attractive.

Raise your eyebrows at that remark, and DeVoe simply shrugs his shoulders. "Who knows?" he says. "The company might actually do it."

All of which is an introduction to saying that, right now, trying to guess the outlook for the stock market in 1987 is roughly the same as those security analysts' plucking their 20 percent earnings gains out of thin air.

In fact, if you go back a year and haul out some old newspapers, you will find that a lot of people were making pretty optimistic predictions for 1986. There were those who saw the Dow Jones Industrial Average going to 2,500 (as of this writing, the Dow, alas, is languishing in the 1,800s), and any number of individual stocks were supposed to go right through the roof. However, if you look at your own stock portfolio, you probably will find that all those glowing predictions barely made it through the first quarter before fizzling out. Indeed, my own portfolio showed big gains in that first quarter and a pedestrian performance after that.

Ray Brady is the business correspondent for CBS News.



This year, moreover, the stock market seems to have the odds stacked against it. A number of top professional investors are cautious when you talk to them, and the accompanying chart shows the reason. Despite all the bad news, the market has stayed high. And corporate earnings have not kept up with stock prices. That will mean trouble if company profits don't come through in the new year.

Added to that, nobody really knows the full effect of tax reform on the economy. Will the consumer feel he or she is getting a break on taxes and start spending money? Will some of the giants of our rust belt industries shrug off the loss of the investment tax credit and keep moving forward? And, with preferential tax treatment of capital gains gone, will investors keep money out of the market and put it instead into, say, life insurance?

Bill LeFevre, of the investment firm of Advest, Inc., is one of the small band of Wall Streeters who do not believe tax reform will be bad news for stocks in 1987. "Maybe I'm a contrarian," he says, "but when I see so many people predicting a gloomy year for the market, I have to believe that's not going to happen. Still, you don't see many of those shoot-for-the-moon kinds of stock buying suggestions these days."

Instead of experts talking up the high fliers, they are more apt to make one of the oldest buying recommendations: When everything looks dismal, when the market is flat on its back, buy cyclical stocks—they will come roaring back when the economy picks up.

Steven Leuthold, of the Leuthold Group, a kind of investment complex in Minneapolis, advocates that course. "Costs are down in many cyclical industries," he points out. "The least efficient production facilities have been junked and written off."

So, he says, even a small uptick in demand could mean some fairly dramatic profit gains for cyclical stocks, such as the aluminums.

Contrarian or not, Bill LeFevre also seems to be following a cautious course. The new tax bill, of course, means dividends will be worth more to investors because they no longer will be taxed more heavily than long-term capital gains, and overall rates will be lower (at least for some investors).

So LeFevre suggests running your eye down a list of utilities. Among those on his list: Allegheny Power, which has been yielding 6.2 percent at recent prices; Carolina Power & Light, 7 percent; Philadelphia Electric, 9.8 per-

(Continued on page 66.)

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THE NATION'S BUSINESS

Where I Stand

Results of this monthly poll on important public policy issues are forwarded to top government officials in the White House and Congress.

1. Restore Lower Tax On Capital Gains?

While tax reform lowered top income tax rates for corporations and individuals, it in effect raised the rates on long-term capital gains—it ended preferential treatment in which only 40 percent of the gains were taxed. Supporters of this change argue that the burden of full income tax rates on sales of assets held more than six months will be offset by the lightening of those rates. Foes of the change say it will be tougher to raise funds for investments, such as starting businesses, that the economy needs. Should Congress restore the capital gains differential?

2. Restore Credit For Investment?

The reform legislation also repealed, retroactive to Jan. 1, 1986, the investment tax credit that allowed companies to reduce taxes by up to 10 percent of the cost of new plants and equipment. The change will hit capital-intensive companies hard, and they have argued strongly for restoring the credit. They maintain that it spurred investment and that its elimination could hamper U.S. economic growth and competitiveness abroad. Opponents of restoring the credit contend that lower overall tax rates will make up for its absence. Should Congress bring back the investment tax credit?

3. Make Federal Jobs Private?

The government's chief personnel officer urges turning over thousands of federal jobs to the private sector, but government employee unions are skeptical. Workers would become co-owners of new businesses that would contract with the government to provide services, presumably at reduced cost. Targets of such privatization might include military commissaries and air traffic control operations. The unions argue that privately provided services are not always cheaper. Should Congress approve a plan to privatize many federal jobs?

Verdicts On November Poll

Here is how business owners and managers responded to the November issue's Where I Stand poll.

	Yes	No	Undecided
Should Congress raise taxes to reduce the federal deficit?	16%	80%	4%
Should Congress replace the dollar bill with a dollar coin and eliminate the penny?	27%	65%	8%
Should Congress approve a national consumption tax to cut the deficit?	30%	60%	10%

Send in your vote on the inserted postpaid card. Explanations of your views on any of these questions are also welcome as letters to the Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.

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cent; and Public Service Enterprise, 7.1 percent. LeFevre also likes some auto stocks. "Ford might be a good buy," he says, "and you could also pick up Chrysler—unless you think something's going to happen to Lee Iacocca."

Mark Kurland, at the Manhattan investment firm of Mabon Nugent & Company, points out that the paper companies have been really roaring ahead and that their price increases have held.

"Even without further price increases," he says "the paper industry should post roughly a 40 percent earnings gain in 1987 as it benefits from the full-year effect of the price increases to date."

Kurland thinks these are the best choices in paper: Great Northern Nekoosa, Champion and Mead.

You might ask: After talking to so many people—and studying so many reports—what plans is a financial writer making for his own portfolio for the new year? The answer: none. With everything so murky, I intend to stay largely in cash—until the view of 1987 becomes a little clearer.

For Your Tax File

The new tax law is going to make it more difficult for parents to help fund a child's college education through income shifting.

By Gerald W. Padwe, C.P.A.

Rethinking Income Shifting

It is an unhappy fact that the new tax law eliminates, among many other things, opportunities to help fund a child's education by transferring assets to the child and having income from the property taxed at the youngster's lower individual rate.

The two most popular income shifting techniques have been the custodian account, in which the assets are given to the child permanently, but without the child's control until he or she comes of age, and the Clifford trust.

In a Clifford trust, the grantor transfers property for at least 10 years, with income going to the trust beneficiary. At the end of the trust term, the property reverts to the grantor. In the past, tax on such trusts' income could be shifted to the beneficiary. But for Clifford trusts established after March 1, 1986, or for additional transfers to trusts existing on that day, the grantor must pick up the tax tab.

For Clifford trusts in existence last March 1, the tax bill continues to be the beneficiary's.

But this will be of small solace to the parent/grantor because, starting this year, it will be subject to the so-called kiddie tax—which will also apply to income from custodian accounts, many of which have been set up under the various states' Uniform Gifts to Minors Acts.

"Kiddie tax" provisions require that *unearned* income above $1,000 for any child under 14 be taxed at the parents' highest applicable marginal rate—28

PHOTO: T. MICHAEL KEZA

percent or 33 percent for many parents, starting in 1988. Since a child would normally be able to use a $3,000 standard deduction and a $2,000 exemption (when the new law is fully phased in) against income, you might expect up to $5,000 of income to escape tax altogether and income above that to be subject to only a 15 percent tax rate until the $17,000 level is reached (at which point the 28 percent rate kicks in for a single taxpayer).

That, however, will not happen.

First, no exemption is permitted under the new law for any child who is another taxpayer's dependent. Second, only $1,000 of unearned income escapes tax at the parents' rate, so income shifting is effectively defeated.

As a result of the new rules, the name of the game is no longer how to shift income, but what kind of property to transfer. Buying U.S. Series EE bonds is one effective technique—provided they are held until the child becomes 14, with no income reported until they are cashed in. Buying low-yielding, high-growth-potential stocks, where the appreciation will not be recognized through sale until after the child turns 14, is a second technique. Buying municipal bonds (including zero-coupon municipals) or municipal bond funds—particularly when municipal bond rates are competitive with corporate bonds'—is a third.

Refinancing Your Home

Beginning in 1987, full deductibility of interest on debt secured by your home is allowed only to the extent that the debt does not exceed the home's purchase price plus improvements (as well as certain additional amounts borrowed for medical or educational purposes).

Homeowners, who saw real estate values skyrocket in the late 1970s, may have increased their mortgages and borrowed more than the initial purchase price.

Mindful of these taxpayers, Congress provided that the purchase price limitation would not apply for loans incurred before Aug. 17, 1986. Note, however, that the loan must have been in effect at that time. A line of credit arrangement entered into before then will not support a full interest deduction if a loan in excess of cost is taken out pursuant to the arrangement at a later date.

Today, with interest rates at their lowest levels in seven years, homeowners who have high-interest mortgages may be tempted to refinance—and this could cause a trap for the unwary.

Although the Internal Revenue Service has yet to make a formal an-

Gerald W. Padwe is national director-tax practice for Touche Ross & Co. For Your Tax File *is an information service for readers. See tax and legal advisers on specific cases.*

Making It

nouncement, we understand Treasury is considering a rule that any new mortgage, even if used specifically to pay off an old, high-interest mortgage, will not be accorded the benefit of refinancing mortgages in excess of home cost.

Assume you bought your home for $100,000, its present value is $175,000, and you have a 14 percent mortgage outstanding with a principal balance of $140,000. To reduce the interest cost to 10.5 percent, you refinance the mortgage for the exact $140,000 amount. The Treasury position under consideration would hold that only the interest on $100,000 may be deducted in full, with the remainder subject to the new five-year phaseout of consumer interest deductions.

Those of you in this position will need to consider whether the after-tax cost of lower interest rates and a partial tax deduction (after refinancing) provide a better economic answer than continuing the higher interest cost and obtaining full deductibility of the interest on your tax return. If you will be in a 38.5 percent tax bracket, you may wish to defer refinancing your home for a while.

Innovators

Companies are offering seminars on rape prevention for their women employees. One major point: Even colleagues and bosses at your own company can be risks. The seminars offer tips on avoiding risky situations and warding off attackers, if the worst should happen.

By Sharon Nelton

Learning How To Cry Rape

The scene was a meeting room in a country club near Wilmington, Del. Sitting in a circle, a dozen or so women, all employees of E.I. du Pont de Nemours & Company, quietly began to introduce themselves and tell why they had come. The subject was rape.

"I'm an electrician," said one. "I work with all guys, so I have a lot to be concerned about."

"I'm a nurse, and I want to know more about dealing with the aftereffects of rape," said another.

"I put myself in situations where rape is a real possibility," said a security employee. "I guess I am overconfident and need to take precautions."

"I travel a lot," said still another. "I am concerned about my safety when I travel."

The women were attending a Du Pont-sponsored Personal Safety/Rape Prevention Workshop. Throughout the day, under the leadership of Megan R. McLoughlin, an automotive fleet management supervisor, they learned to be more aware of risky situations.

"How many times have you accepted a ride from someone you don't really know—for example, a co-worker?" asked McLoughlin. "You say to yourself, 'He is a Du Pont employee. He must be okay.'" Sometimes, she pointed out, colleagues, even bosses, are not "okay."

Her audience also heard tips on making homes more secure, traveling safely and warding off an attacker. For example, put a peephole in the door; don't rely on safety chains as locks, since they can be cut or broken. When using public transportation, sit on the aisle so you are not trapped if someone sits beside you.

Yelling is a top deterrent, but females are brought up to be quiet, Du Pont's trainers point out. McLoughlin put the women through several drills, making them scream at the top of their lungs specific words such as FIRE!, GET AWAY! and CALL THE POLICE! If you scream without words, she explained, you come across to your attacker as panicky and more vulnerable.

ILLUSTRATION: GREG FITZHUGH—EUCALYPTUS TREE STUDIO

Du Pont began its rape prevention training in 1983 with about 20 workshops for women employees who traveled heavily, according to Gail J. Finnical of the company's employee relations department.

On the recommendation of many of these women, Du Pont is now trying to reach all 30,000 women in its 120,000-employee work force. It is using 50 workshop conductors who, like McLoughlin, are employees but who volunteer to take the training and conduct the workshops.

Finnical points out that Du Pont—again on the recommendation of early workshop participants—redesigned the program to include all kinds of assault. It also established corporate guidelines to support the employee in the aftermath of rape.

The guidelines call for confidentiality, time off with pay during periods of physical or mental disability and making medical assistance available. If an employee is assaulted in the course of doing business, Du Pont pays all necessary treatment costs.

"Rape is a major social problem which has an impact on businesses and their employees," says a company backgrounder, pointing out that at least one in 10 women will be raped in her lifetime. With more women participating in the work force, businesses are increasingly confronted with problems arising from the physical and emotional disabil-

ity of employees who have been raped. "While a business cannot prevent rape," the Du Pont paper continues, "it can help its employees reduce their chances of becoming victims."

Can't We Be Friends?

A manager who has no friends at work is operating under a handicap, no matter how competent he or she may be, according to Russell L. Ackoff.

The most effective management teams are those in which the members are friends, regardless of rank, Ackoff says in his new book, *Management in Small Doses* (John Wiley & Sons, Inc.).

"When managers must make decisions quickly, they are unlikely to accept the advice of anyone but a friend," says Ackoff, who teaches at the University of Pennsylvania's Wharton School. Managers usually accept advice from people who are not their personal friends only when they have time to verify it for themselves. They tend to act on their own intuition rather than on nonfriendly or unfriendly advice.

Why do managers take the advice of friends more seriously? "Friends," Ackoff explains, "are persons we know, like and *trust*; we believe that they will act in ways that they perceive are in our best interests."

It is best if friendships are formed across ranks as well as among peers, counsels Ackoff. To encourage "vertical" friendships, he suggests reducing the privileges used to differentiate ranks. He also suggests increasing the numbers of task-oriented groups with members of different ranks and opening opportunities for informal nonbusiness interaction across ranks.

"Friendship," he sums up, "is most rapidly established by demonstrating an awareness and consideration of the personal welfare of others."

To Your Health

By Gary M. Kaplan

Oh, My Aching Toe!

The association of gout with grandfathers—particularly grandfathers who resemble the aging Winston Churchill—is a view that gout sufferers consider as a sore toe.

"I know the picture people have of us," complains Edward Borovay, a Los Angeles furrier. "They think gout is a disease of the rich and stodgy and see us as bloated old Whigs dozing in leather armchairs in our musty gentlemen's club. And because so many brilliant men throughout history have had gout—including Michelangelo, Mozart and Sir Isaac Newton—another stereotype has us as wise old codgers who, on those occasions when we *haven't* nodded off, deliver great works of arts and earth-shaking pronouncements. Well, that's just not an accurate picture."

Indeed, over a million average Americans suffer from gout, and the only pronouncement they offer is *ouch!*

A form of arthritis primarily affecting men over 40, gout is characterized by sharp needle-shaped uric acid crystals that form in the fluid that lubricates the joints. These little glasslike crystals cause sharp stabbing pains, typically striking first in the big toe. Finger, foot, ankle, elbow, wrist and knee joints are also places for an attack of gout.

Gout is caused by a genetic disorder whose victims overwhelmingly are men. The condition leads to improper metabolism of purine, a substance found in most foods, according to Dr. Peter Hendler, a San Francisco rheumatologist. Normally, when unneeded purine is broken down by the body, it is transformed into uric acid and then excreted in the urine. In gout sufferers, however, uric acid can build up in the blood when too much is produced or too little is excreted. Either situation can lead to an excruciating attack.

Edward Borovay remembers his first gout bout all too well. "At 3 o'clock one morning I suddenly awoke to a burning sensation in my right big toe. It felt like it was on fire. When I pushed back the covers and switched on a light, I saw my terribly red and swollen toe. When I tried to stand, it hurt so badly that all I could do was tumble back in bed."

Though it may appear otherwise, gout does not just sneak up on people and bite their big toes. "In fact," says Dr. Hendler, "to get gout you have to possess a high uric acid level for at least 10 years. Only then can the uric acid crystals accumulate and trigger an inflammatory chain reaction with a resultant 'explosion' in the affected joint." Heredity also plays a significant role. If your father had gout, so might you.

Because a high uric acid level, as revealed by a blood test, does not necessarily mean gout is imminent, says San Francisco rheumatologist Dr. Neal Birnbaum, "it is better just to observe the patient until the first attack. At that time, treatment can begin."

Gout can be triggered by eating or drinking too much, but it can also result from injury to a joint, if you have a predisposition to gout. "A bump on the ankle won't bring on gout in a person without the predisposition," says Dr. Hendler, "but may, perhaps by releasing some uric acid crystals, cause an attack in someone with an existing high uric acid level."

That is what happened to Phil Missimore, associate publisher of a computer trade magazine in Encino, Calif. He was hurt playing basketball. "Going for a rebound, I collided with another player," he says. "Well, I got the ball, but my effort resulted in a sore foot—and the onset of gout."

At first, gout attacks are usually few and far between, lasting just a couple of days. If the disease is not controlled by medication, attacks may come more often and tend to last longer. Repeated attacks can damage the affected joint or joints and may result in chronic stiffness and limited joint motion.

There are several effective medications, according to Dr. Birnbaum. Some control inflammation of a gout attack; others help the body rid itself of uric acid; still others reduce the body's uric acid production. Drug treatment, of course, must be individually tailored to the patient.

Before drugs, the only way to control gout was to institute a very strict, low-purine diet, according to Dr. Hendler. This meant avoiding such foods as organ meats (liver, kidneys, brains, etc.) anchovies, gravies, caviar, wines and beer. Foods with moderate amounts of purine—including asparagus, mushrooms and whole grain cereals—were limited to one serving each day.

Says Dr. Hendler: "With drugs, we generally do not place patients on a restrictive diet, as long as their uric acid levels remain constant."

Gary M. Kaplan is a San Francisco free-lance writer.

PEOPLE

Making It

A full-service banking victory; a red-hot recipe for success; one woman's golden enterprise.

His Customers Bank On Service

By stressing individual needs and community needs, Allan T. Gibson (right) made his National Bank of Catalina the only place to bank in the city of Avalon on California's Santa Catalina Island.

PHOTOS: JIM MENDENHALL

Allan T. Gibson commutes to the office by helicopter—not because of the traffic around Long Beach, Calif., but because the office is in the city of Avalon on Santa Catalina Island, 22 miles off the coast. Gibson, 39, president of the National Bank of Catalina, has the bank's profits also flying high.

National Bank of Catalina has emerged victorious from a David-and-Goliath battle in which the tiny, yet aggressive independent was the survivor. Last March 31, Los Angeles-based Security Pacific National Bank, the nation's seventh largest, closed its 67-year-old Avalon branch.

Competition in banking came to Avalon on Dec. 31, 1982, when Gibson's bank opened in a bayfront office. Some islanders snickered, feeling its days were numbered in the face of Security Pacific's domination. Security Pacific officials had taken the position that there was room for only one bank on the island.

"But we got off the laugh list," says Gibson, formerly regional vice president of L.A.-based Union Bank. National Bank of Catalina logged its 1,000th account after only six months, showed its first profit after 17 months and ended 1984 (its second full year of operations) with $14.9 million in assets.

Those assets jumped to more than $36 million going into the fourth quarter of 1986.

In the summer of 1985 the full-service newcomer surpassed its seasoned competitor in number of accounts: 2,600 vs. 2,500, in a community with a permanent population of just 2,300. A few weeks later Security Pacific shocked island folk by announcing its island branch would close.

"We're doing wonderfully" says Gibson. "We're feeding off deposits Security Pacific left behind, and we'll get a lot of its certificates of deposit as they come due during the year."

The feisty newcomer built business by stressing personal service and being aware of the community's needs. Staff, directors and most of the 480 shareholders had local roots. Friendly service from a staff of 12 (now grown to 17), compared with 10 at Security Pacific, appealed to customers. So did the bank's extended hours, including 9 a.m. to noon on Saturdays, and the island's only automated teller machine for 24-hour banking.

Security Pacific had never expanded its hours or installed an ATM. Roy D. Hartmann, vice chairman of Security Pacific and head of its California bank system, said one of the main factors contributing to the decision to close the island branch was "the prohibitive cost of automating the Catalina office to bring it in line with our other offices in California."

Meanwhile, National Bank of Catalina established its own compact computer room with an on-line link to Beverly-Hills-based City National Bank's data processing center. "We just push a button to get full financial reports and accounting information," says Gibson.

Noting that one third of island residents are over 55 years old, Gibson continued his service-oriented marketing approach by starting a free "deposit on wheels" service. A patron who cannot make it into the bank just phones and asks for a deposit pickup. The bank sends a vehicle—originally an aged Volkswagen, now a new Subaru station wagon—to the scene.

"You can't get more convenient than doorstep banking," says the youthful banker, whose sports clothes reflect the resort community's casual atmosphere.

Gibson dons more traditional banker's garb quite often these days, however. National Bank of Catalina established a branch in October, 1985, in Signal Hill, midway between business-studded metropolitan Los Angeles and mushrooming Orange County, Calif. That office, with a staff of 11, gives the bank a "dual personality."

Says Gibson: "First we serve the Avalon area as a consumer-oriented community bank; on the mainland we are a business bank."

Fresh from his island victory, Gibson looks forward to continued expansion stateside. And once again Security Pacific—and other banking giants—are among his competitors.

—Hal Morris

A twist of fate created Wizard Baldour's Hot Stuff and put John Troy on the road to starting American Natural Foods, Inc., in Hillsborough, N.C. Troy says the wizard is his "alter ego."

A Sorcerer's Sauce

PHOTO: BILLY BARNES

When a string of dried red cayenne peppers hanging in his kitchen broke into a blender below, John C. Troy had an inspiration. He took a break from making ginseng candy bars, added all the seasonings on a nearby lazy Susan to the peppers, pressed the button and presto! Wizard Baldour's Hot Stuff was born.

He tasted the mixture. "It hit me immediately," says the president of American Natural Foods, Inc. "I said, 'Hey, I've got my next product right here.'"

One of the seasonings on the lazy Susan was miso (pronounced mee-so), and it makes Troy's hot sauce unique on the American market. Buddhist priests have used miso for 2,500 years, and Japanese use it daily. However, in the United States, the reddish-brown substance with the consistency of peanut butter was available only as a raw material in health food stores—until Troy came along. Now, in the hot sauce and seven other Troy products, it is on the shelves of supermarkets.

Miso, a flavor enhancer, is made from fermented soybeans and grains, much the way yogurt is produced from milk. Rich in protein, vitamin B-12 and other nutrients, it works well in low-fat diets. Though salt is one of its ingredients, it also works well in low-sodium diets, Troy says, because it is a "sodium stretcher"—it is salty, and you use it in salt's place, but it contains less sodium.

Before the cayenne pepper incident, Troy and his wife, Carol, were making the candy bars for Elf Works, a home business in Chapel Hill, N.C. When Troy branched out into condiments, he felt that the company name did not sound right for his new products. He started American Natural Foods two years ago and raised $400,000 from 30 shareholders.

Recently, American Natural Foods moved to nearby Hillsborough, where it leases offices and a warehouse. But it has gone much farther afield in its production, marketing and management operations. Wizard Baldour's Hot Stuff and six other condiments are manufactured at Mrs. Campbell's Canning Company near Winston-Salem, N.C. The owner, Tony Golding, is an American Natural Foods shareholder. Miso mustard, the company's best-selling product, is made in Emeryville, Calif.

As for managerial and professional functions, the company relies on what it calls horizontal networking, in which professionals in various parts of the country make contributions on a part-time basis. The system, says Creative Director John Fogg, "allows us access to a much higher caliber of expertise at a cost we can afford."

He adds: "Decisions tend to be made in a consensus manner, not by dictate." Fogg works out of Manomet, Mass. The company's trademark attorney is in Los Angeles. American Natural Foods does no media advertising, but it uses a public relations firm, which is in Chicago.

At first, American Natural Foods products sold only in health food stores, but they spread gradually to North Carolina grocery stores. A breakthrough outside the state came recently when the company landed a contract with Kroger to try four products in the national chain's 1,600 stores. American Natural Foods' sales were $220,000 in its first fiscal year and are expected to more than double that level this year.

Troy, 46, is not a traditional executive. A college dropout, he started a stereo retail business, became dissatisfied with retailing and "took a sabbatical"—it lasted five years—to ponder what life was all about.

During that period he became a vegetarian. An avid cook, he found vegetarian food unnecessarily bland, and he began to experiment with spices, including miso.

Friends took to calling Troy "Wizard" some years ago after he helped a friend write a musical drama about Halloween featuring a sorcerer. A wizard on the label of the hot sauce is a caricature of Troy. "It is my alter ego," he says.

—Michaela Oberlaender

New York wholesaler Donna Schneier finds a special glitter in creating and marketing gold jewelry to 40,000 low-price stores across the country.

Going For The Gold In Jewelry

PHOTO: TED HARDIN

Donna Schneier walks out of her newly restored building and steps onto a sidewalk littered with nails, broken plaster and blowing newsprint. The block on 22nd Street, just east of New York's Fifth Avenue, is a mess. But the neighborhood, known as the Flatiron District after a famous building within its boundaries, is emerging from shabbiness as one of *the* areas to live and work in. This block is early in the transition stage, however, and construction rubble clutters the pavement.

A moment later, a passer-by drops a spent cigarette directly in front of Schneier. Without missing a beat, Schneier stoops down, picks up the butt between two manicured fingers and carries it across the street to the expensive restaurant where she has lunch reservations. The attentive waiter respectfully throws it away for her.

"No matter what the rest of the street looks like," Schneier says, "there is not going to be any litter in front of *my* building."

There is no aggression in her voice, just a calm, self-assured, "that's the way it is" tone. That demeanor helps keep her surroundings just so and her business, Una Donna, Ltd., bringing in around $30 million annually. Una Donna (Italian for "a woman") designs and imports gold jewelry for 40,000 low-price stores across the country.

"A woman on a K-Mart budget obviously doesn't have as much to spend as a woman on a Bloomingdale's budget, but I don't think it's fair to say that she doesn't have as much taste," Schneier says. "She's the one we try to reach, by offering the most look for the money."

For over two decades, Schneier traveled in higher budget social circles. Until her divorce last year, she was the wife of the internationally prominent Rabbi Arthur Schneier and hostess of many parties for celebrities, including world leaders.

"That was fulfilling, especially when we were on the way up," she says. "But once the children were in school, I needed more challenge. I had a capable mind, and I had talent. It was time to put them to work."

After applying her art history degree from Brandeis University to several successful ventures in art collection and auction, Schneier began her gold jewelry business in 1979.

That was a particularly volatile year for the gold industry. Schneier stood to lose plenty unless she developed an innovative way to protect her investment in gold while the jewelry was being manufactured. The solution came unexpectedly at a party.

"I met someone there who suggested that I lease the gold rather than buy it outright," she says. "With this arrangement I don't buy it until the manufactured jewelry is sold to the stores. Buying and selling are simultaneous."

Schneier leases gold from the Fleet National Bank in Providence, R.I. That institution then transfers the lease to a Swiss bank via telex confirmation. The bank, in turn, then ships its own gold to Italy for manufacture. The gold is crafted into necklaces, earrings and bracelets and shipped to Schneier's Manhattan vault for storage.

The morning after each sales day, Una Donna actually buys the gold negotiated for the day before at a price determined by the London "fix" that sets world gold prices. The retailer is billed for an amount based on that price.

Schneier travels to Italy every six weeks and contracts with manufacturers for jewelry from the gold shipped for her from Switzerland. "Italy is the place to have the gold turned into jewelry for two reasons," she says. "First, it allows free import and export of gold as long as the metal is not in the country longer than six months. Second, nobody can work with gold like the Italians. They've been doing it for over 3,000 years. Italy is still the creative center for gold."

She uses a trained artistic eye to find pieces that suit her standards. "I don't pretend to be a designer, but I work with the manufacturers to see that every item in our line has a little something extra—an extra gold bead or two, a highly polished clasp or perhaps a richer color or texture than our competitors' merchandise," she says.

Her initial contacts with manufacturers also taught her valuable lessons in making sure a product meets her standards. "I had no previous experience in international trade, so I focused on building respect between me and my suppliers," says Schneier. "The mainstay of business is service. Never try to beat the manufacturer at his own game. The price you pay will be that you don't know if he's done something to reduce the quality.

"When I first went to Italy to meet with jewelry manufacturers there, my friends said, 'Are you out of your mind? A woman alone in Italy? They'll take advantage of you!' But the moment I took out my calculator, the Italian businessmen and I understood each other perfectly."

To make sure comprehension is complete, Schneier never conducts business in Italy without an interpreter. Although proficient in Italian herself, she also has a respect for nuance and unspoken messages that could make or break a deal for her.

One of the few women importers in her business and a pioneer in international gold leasing, Schneier is accustomed to making business moves that might give others pause. Her frequent jaunts to Italy are no exception.

"I'm not going to let the recent terrorism keep me from doing business in Italy," she says. "Once the terrorists affect the choices we make, they've won. I go to Italy as usual because my business takes me there. That's the way it is."

—Martha I. Finney

COMMENTARY

Editorials

The battle lines between Congress and the White House are clearly drawn; what's in an anniversary number.

No Issues? The New Congress Could Be One Of The Most Exciting In A Long Time

You might assume that the 100th Congress convening this month will have little to do, if you have been listening to the political pundits.

They have assured us, after poring over the results of the offyear election in November, that there weren't really any national issues involved and that the results amounted to a standoff between the two major parties. We have been told that the low turnout—37 percent of eligible voters—and the sharply mixed results showed voters had no particular signal to send about anything.

Well, there is no doubt that the election produced mixed results.

Democrats scored a major victory by recapturing the U.S. Senate control they lost to the Republicans six years ago. But the Republicans held Democratic gains in the House of Representatives to five seats. In the four elections since 1938 that have taken place during a party's second term in control of the White House, that party has lost an average of 52 seats. Not only did the GOP successfully buck that historic trend, but it also scored a resounding win in gubernatorial contests. The 34-16 Democratic lead in governorships has been cut to 26-24.

It is an insult to American voters, however, to assume from the political arithmetic that they do not see major issues at stake in government today. The fact that some candidates won through campaigns based on gimmickry and irrelevance, as opposed to issue-based appeals to voters, does not mean those issues do not exist. No matter how they won at the polls, the men and women elected to Congress will be called on to make hard decisions.

For example, should the federal deficit be reduced through tax increases or spending cuts? Is protectionism the answer to the nation's trade problems? Are changes needed in national security policies? Should the antigrowth provisions of the 1986 tax reform legislation be revised? Do continuing changes in the workplace require more government controls, to accommodate employee needs? No, the new Congress will not lack for issues.

PHOTO FRANCES BORCHARDT

With Democrats in control of both houses, and President Reagan planning to press his case for less government, the issues will actually be sharpened. Over the past six years, the G.O.P.-controlled Senate has frequently served as a buffer between the liberal Democratic leadership of the House of Representatives and the conservative President.

The next two years will see the battle lines drawn far more clearly, particularly on social policy and national security. Public interest and debate will be heightened accordingly. The term of the 100th Congress could be one of the most controversial and exciting in many years.

Pundits who failed to see that prospect in the tea leaves should look again.

And Speaking Of Congresses . . .

Each Congress since the first has sat for two years, and therefore it would seem that the 100th Congress should have a place in the bicentennials the nation has been observing since 1976.

However, the fact is that the 101st Congress will be the one that will mark the first 200 years of the national legislature.

The first Congress was elected in 1788, serving in 1789-90, and the November, 1988, congressional elections will mark the bicentennial of its selection.

Though the very name, "the 100th Congress," has a certain historical ring to it, its members were chosen on the 198th anniversary of the initial congressional election. So we will have to wait another two years for the seating of the bicentennial Congress.

But 1987 does have an important role in the span of observances of the birth-of-a-nation events between the Declaration of Independence in 1776 and the launching of our present form of government, with the inauguration of George Washington and the start of congressional sessions, in 1789.

It was 200 years ago this summer that delegates from 12 colonies (Rhode Island refused to participate) produced their "miracle at Philadelphia"—the U.S. Constitution. The Constitution was the vehicle through which what had been 13 colonies, sharply divided on regional and economic issues, became the United States of America. And it has been the keystone of the nation ever since.

The bicentennial spotlight will fall this year on the Constitution as it should, and Congress' turn will be two years from now.

Even if the numbers just don't seem quite right.

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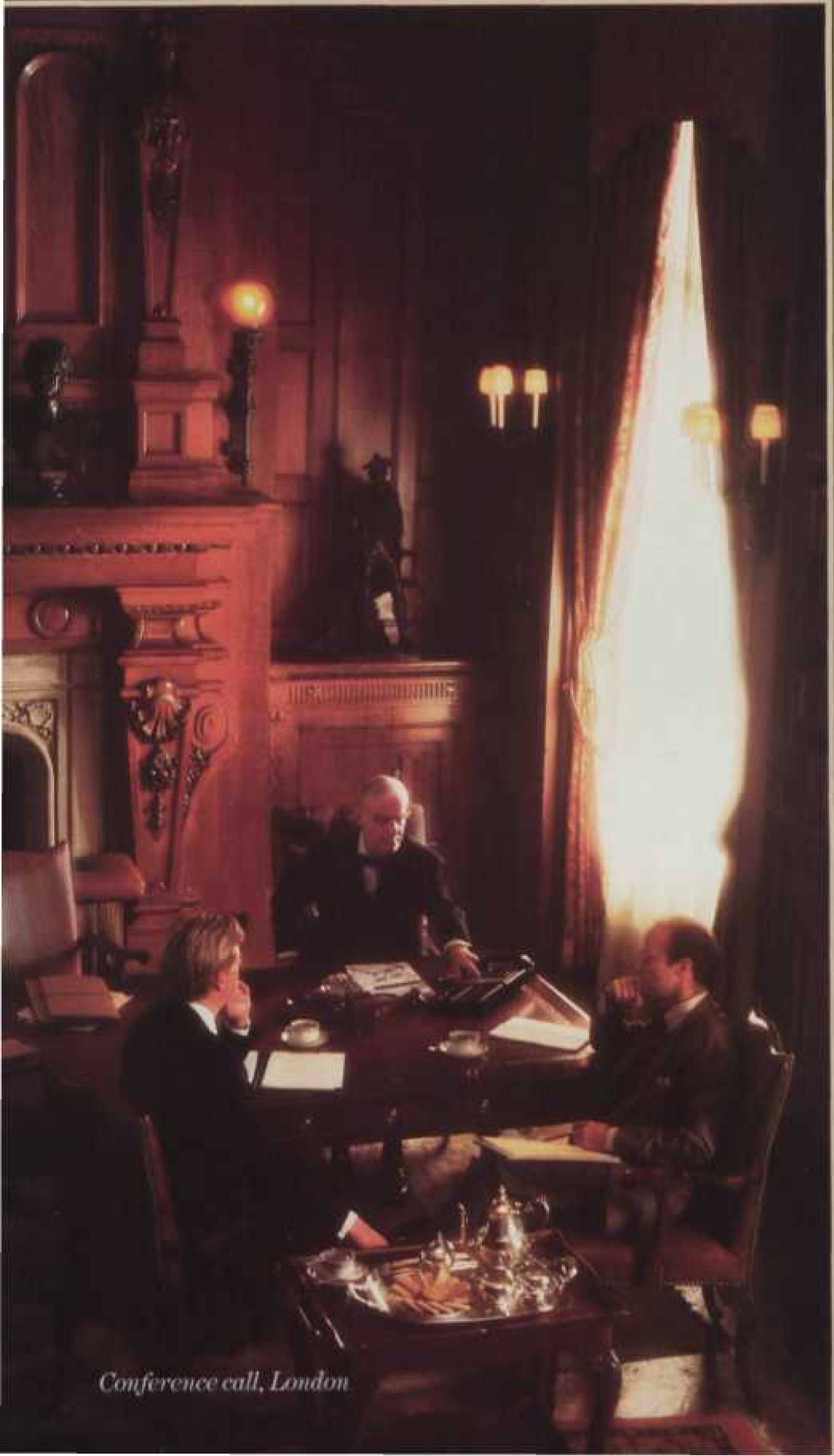

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